PROVINCE OF NEWFOUNDLAND

REPORT OF THE AUDITOR GENERAL

TO THE HOUSE OF ASSEMBLY

for the

FINANCIAL YEAR ENDED

31 MARCH 1980

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ST. JOHN'S, NEWFOUNDLAND

GOVERNMENT OF NEWFOUNDLAND AND LABRADOR
DEPARTMENT OF THE AUDITOR GENERAL

February, 1981

The Honourable J. F. Collins, F.R.C.P.(E),

Minister of Finance.

Sir:

In compliance with The Financial Administration Act, 1973, I have the honour to submit herewith, for transmission to the House of Assembly, the Public Accounts of the Province of Newfoundland for the financial year ended 31 March 1980, accompanied by my Report thereon.

Respectfully submitted,

J. E. RICHARDS, B.Com.,
Deputy Auditor General.

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REPORT OF THE AUDITOR GENERAL

INTRODUCTION

The Financial Administration Act, 1973, Subsection 2(a), reads as follows:

"2. In this Act, unless the context otherwise requires

> (a) "Auditor General" means the Auditor General of Newfoundland and includes the officers and clerks acting under his direction and, where there is no Auditor General in office, means the Deputy Auditor General and, in the absence of both, means such other officers as may be designated by the Lieutenant-Governor in Council to perform the duties of the office."

There is no Auditor General in office at this time. Therefore, the Report of the Auditor General to the House of Assembly, for the financial year ended 31 March 1980, is made by the Deputy Auditor General.

In compliance with the requirements of Sections 62 and 67 of The Financial Administration Act (Statutes of Newfoundland, 1973, No. 86), I submit my Report to the House of Assembly on the results of my examination and audit of the accounts and financial statements of the Province of Newfoundland for the financial year ended 31 March 1980.

Auditor General Retires

2. David E. Howley, F.C.A., retired as Auditor General of Newfoundland on 25 August 1980. His record of public and community service during his term of office, which commenced on 3 July 1968, is well known throughout the Province and has been recognized as significant and commendable. On behalf of the staff of The Department of the Auditor General, I express appreciation to Mr. Howley for his contribution to the on-going affairs of this Department, including its development and improvement throughout his term of office.

The Public Accounts

3. Section 55 of The Financial Administration Act, 1973, reads:

"55. — (1) The Comptroller shall as soon as possible after the end of each fiscal year prepare a report, to be called the Public Accounts, and shall submit it for audit by the Auditor General and onward transmission to the Minister for submission to the House of Assembly.

(2) The Public Accounts shall show in respect of the fiscal year to which they relate

(a) the state of the public debt;

(b) the revenue and expenditure;

(c) all compromises, remissions, refunds and amounts written off; and

(d) such other accounts and statements as may under good accounting practice be required to show the financial position of the province at the end of the fiscal year."

Financial Statements of the Province for 1979-80

4. The financial statements of the Province, submitted for audit by the Comptroller of Finance in compliance with Section 55(1) of The Financial Administration Act, 1973, are listed in the Table of Contents of the volume of Public Accounts for 1979-80 under the following captions:

Statement of Assets and Liabilities

Consolidated Revenue Fund — Statement of Receipts and Payments

Revenue, Expenditure and Related Revenue

AUDITOR GENERAL'S OPINION

Accounts examined

5. In addition to my examination, from time to time, of the various accounts of the several departments, I have examined the accounts of the Province and the financial statements with respect to these accounts which have been prepared under the direction of the Comptroller, and to which I have referred in paragraph 4. I have received all the information and explanations I have required.

Scope of examination

6. My examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as I considered necessary in the circumstances.

Departmental accounts for the year ended 31 March 1980 were examined and tested to comply with the requirements of The Financial Administration Act, 1973:

(i) Current Account Revenue and Related Revenue accounts were examined to comply with Section 61 of the Act, which reads: "The Auditor General shall satisfy himself that all public money is being fully accounted for and shall examine at his discretion the accounts of all persons charged with the collection and management of public money."

(ii) Expenditure accounts were examined to comply with Section 60(1) of the Act, which reads: "The Auditor General shall examine periodically the accounts of all departments and shall take such further steps as he may deem necessary to satisfy himself that the accounts are faithfully and properly kept and that money expended has been applied, subject to this Act, to the purposes for which it was appropriated."

(iii) The accounts of the Province and the related financial statements were examined and audited to comply with the requirements of Section 62(1) of the Act, which reads: "The Auditor General shall, besides examining from time to time the various accounts of the several departments as provided for by this Act, examine and audit the accounts of the province for each fiscal year and for that purpose statements with respect to such accounts shall be prepared by such persons as the Comptroller may direct."

The statements referred to in Section 62(1) of the Act are listed in Section 62(2) of the Act, as follows:

(a) accounts of all receipts forming the Consolidated Revenue Fund;

(b) accounts of all expenditures made from the Consolidated Revenue Fund;

(c) accounts current with the several banks and fiscal agents of the Province;

(d) accounts relating to the raising or redemption of loans;

(e) accounts relating to sinking funds;

(f) accounts with other governments;

(g) accounts held in trust for others; and

(h) all other public accounts.

Opinion

7. In accordance with the requirements of Section 62(3) of The Financial Adminstration Act, 1973, I report as follows on the results of my examination and audit of the accounts and financial statements of the Province for the year ended 31 March 1980.

In my opinion,

(a) proper books of account have been kept by the Province;

(b) the financial statements of the Province

  (i) were prepared on a basis consistent with that of the preceding year and are in agreement with the books of account,

  (ii) in the case of the balance sheet, present fairly the state of the affairs of the Province as at the end of the fiscal year,

  (iii) in the case of the statement of revenues and expenditures, present fairly the revenues and expenditures of the Province for the fiscal year, and

  (iv) in the case of the Consolidated Revenue Fund, the statement of receipts and payments present fairly the receipts and payments of the Consolidated Revenue Fund for the fiscal year.

GENERAL MATTERS

8. **Public Accounts Committee**. The Public Accounts Committee has been appointed under Standing Order 84(a)(d) of the Standing Orders of the House of Assembly of Newfoundland to enquire into the Public Accounts of the Province and the Report of the Auditor General on these accounts.

During the past year to 31 January 1981 the Committee has continued to meet periodically. Its last Report to the House of Assembly was tabled in April 1980 and dealt with the 1977-78 Public Accounts and the Auditor General's Report thereon. I understand that the Committee will soon complete a Report to the House of Assembly on its deliberations and findings over the past year.

I note that I continue to provide a member of my staff to the Public Accounts Committee as its research officer.

9. **Guide on Financial Administration**. I am pleased to report that further progress has been made by Treasury Board and Department of Finance officials on a Guide on Financial Administration for the Province. In September 1980 six completed chapters of the Government of Newfoundland and Labrador, Management Manual, Volume I, Financial Policies and Procedures, were issued by the Treasury Board to Government Departments. The Executive Council has directed that the Secretary of Treasury Board and the Deputy Minister of Finance are to ensure that the remaining work on the Guide proceeds as expeditiously as possible.

10. **Canadian Conference of Legislative Auditors**. The eighth annual meeting of the Canadian Conference of Legislative Auditors was held in Winnipeg, Manitoba, on August 11-13, 1980. The Auditor General, the Deputy Auditor General and the Director of Audits, Public Accounts Branch, attended the meetings from this Department. The conference agenda included sessions on professional development, financial reporting practices in government, audit committees and internal auditing in government, the legislative auditor — public impressions and expectations, and audit of grants and transfer payments.

The Chairmen and other representatives of the Public Accounts Committees of Canada and the Provinces also met in Winnipeg in August 1980. They met with the Legislative Auditors in a one-half day joint session to discuss topics of mutual interest.

The 1981 meeting of the Legislative Auditors will be held in New Brunswick. It is planned that there will be another joint session with Chairmen of Public Accounts Committees.

11. **Canadian Comprehensive Auditing Foundation**. Since the date of the Auditor General's last Report to the House of Assembly, the Canadian Comprehensive Auditing Foundation was incorporated on 28 February 1980.

"The main objective of the Foundation is to serve as a focal point for collecting and communicating comprehensive auditing knowledge and experience. This in turn will promote the adoption of systems to ensure the efficient use of resources. To meet this objective the Foundation will

- foster the development of methodology;
- organize professional development and training programs;
- arrange for conferences and publications to promote the exchange of information and views; and
- provide professional development opportunities for auditors from developing nations." (Comprehensive Auditing — A New Approach To Public Sector Accountability In Canada. A paper by J. J. Macdonnell, F.C.A., F.M.C., Auditor General of Canada and Chairman, Canadian Comprehensive Auditing Foundation — May 1980).

I am pleased to report that the Department of the Auditor General of Newfoundland is a sustaining member of the Foundation.

The first annual conference of the Foundation, which two of my senior officials attended, was held in Ottawa in September 1980. Among the many topics discussed was "Appropriateness of broadened audit function," which received a great deal of attention. I look forward to the Department of the Auditor General of Newfoundland adopting procedures based on the concepts relative to this broadened audit function, including the "value-for-money" concept. This should be possible and provided for under provisions of a new and separate Auditor General Act, when one is enacted.

12. **Staffing and training and development.** Since 31 January 1980 the Department of the Auditor General has continued its efforts to maintain a full staff complement. Staff changes during the year included twelve resignations. Six placements were made to fill some of the vacancies while other positions remained to be filled.

Continued emphasis has been placed on staff training and development during the past year. A number of staff members continued their studies towards attaining qualifications in one or other of the recognized accounting designations. I congratulate two members of the staff who qualified in 1980, one a Chartered Accountant, the other a Certified General Accountant. As well, I express appreciation and support to all staff members who have taken Public Service Commission or other training courses during the year. Their on-going efforts are needed to maintain the auditing capability of this Department.

COMMENTS ON ASSETS AND LIABILITIES

Department of Finance

13. **Overstatement of $16,751,000 in net debenture and other debt.** The Statement of Assets and Liabilities of the Province, as at 31 March 1980, shows debenture and other debt totalling $1,858,786,000, less sinking fund assets of $279,091,000, to arrive at net debenture and other debt of $1,579,695,000.

The sinking fund assets, which are deducted from the outstanding debt, include debentures of the Province that have a par value of $236,491,000. However, these debentures are included in the sinking fund assets at a value of only $219,740,000. This amount reflects the cost to the sinking fund of purchasing these debentures, plus the amortized discounts on purchases, up to 31 March 1980.

Since the Province's debentures purchased and held in the sinking fund, as investments, represent debt obligations of the Province that will be cancelled at maturity, at par value, the total value of these investments should, in my opinion, be shown at par and be deducted from the debenture debt to arrive at the net debenture debt.

In my opinion, the present accounting practice of deducting the sinking fund assets at cost plus amortized bond discount results in an overstatement of $16,751,000 for net debenture and other debt, as at 31 March 1980.

Department of Education

14. **Accounts receivable, pupil-teacher loans.** As at 31 March 1980, the asset statement of the Department of Education included an amount of $718,542 for accounts receivable, pupil-teacher loans. In his last three Reports to the House of Assembly, the Auditor General disclosed that a number of deficiencies existed in the recording and collection of these accounts. The audit for 1979-80 revealed that little action had been taken to correct the deficiencies as reported in paragraph 12 of the 1978-79 Report. The following deficiencies continue to exist:

(i) The Department made little effort to collect the outstanding accounts during the 1979-80 fiscal year. Total cash collected during the year amounted to only $3,968.

(ii) Statements of account are mailed only when the debtor becomes identified by having made a payment.

(iii) The majority of these accounts have been outstanding for ten years or longer, thereby making their eventual collection very doubtful.

As an audit procedure, my auditor sent confirmation requests to eighty individuals identified in the records of the Department. Results of this test were:

(a) Some individuals disagreed with the balances outstanding.

(b) Several confirmations were returned because of incorrect addresses. The Department could not provide correct addresses.

(c) No replies were received from several individuals, even though second requests were sent.

(d) Some individuals acknowledged that they did owe the amounts recorded on the records of the Department.

I have been advised by the Department that due to the ambiguous terms of the pupil-teacher indentures signed before 1972, the collection of the outstanding amounts, totalling $656,433, relating to these indentures is very doubtful. I note that the Department has provided an allowance of $600,000 for doubtful accounts, which represents 91% of the outstanding pupil-teacher indentures entered into before 1972.

In my opinion, the Department has had ample opportunity since the first report on this matter (31 March 1977) to have the situation resolved. I note that it was only in November 1980 that the Department took the initiative to try and contact the various debtors involved. When the results of this survey are known, the Department will then be in a position to decide whether to try and collect the accounts or request Treasury Board approval for a write-off.

Department of Municipal Affairs and Housing

15. **Collection of receivables not being pursued.** As at 31 March 1980, the statement of assets of the Department of Municipal Affairs and Housing showed certain receivables, totalling $1,839,390, representing loans plus accrued interest due from various municipalities. This amount comprises loans of $929,422 and accrued interest of $909,968.

These loans were issued prior to March 1970 and no payments have been received on them since 1973. A full allowance for doubtful accounts has been recorded.

This is the fifth consecutive year this item has been brought to the attention of the House of Assembly in the Auditor General's Report. I again report that, as far as I could ascertain, no effort was made during the 1979-80 fiscal year to collect or write off these long-outstanding accounts. In my opinion, a decision should be taken on this matter as it is pointless to carry these receivables in the Public Accounts of the Province but refrain from taking any action to collect them.

COMMENTS ON CURRENT ACCOUNT REVENUE

16. **General comments**. The Summary of Revenue, Expenditure and Related Revenue by Department, Statement No. 3 of the Public Accounts, shows total current account revenue at $1,073,102,000. Details concerning the amounts which are classified as current account revenue appear in Statement No. 5 of the Public Accounts and the notes thereto.

In summary, the total comprises:

Payments received from the Government of Canada —

Subhead 490	Government of Canada	$ 500,162,000
Subhead 491.08	Taxation: Revenue guarantee	2,151,000
Subhead 690.02.06	Post secondary education	400,000
Subhead 491.15	Reciprocal tax agreement	5,000,000
		507,713,000

Provincial income taxes and succession duty and gift tax collected and remitted by the Government of Canada —

Subhead 491.09	Personal income tax	154,713,000
Subhead 491.12	Corporate income tax	37,974,000
Subhead 491.14	Succession duty and gift tax	187,000
		192,874,000

Revenue received through the Newfoundland Liquor Corporation and the Newfoundland Liquor Licencing Board	41,368,000
Retail Sales Tax	214,048,000
Gasoline and Fuel Oil Tax	44,499,000
Tobacco Tax	18,431,000
Revenue from other taxes, privileges, licences, permits, etc., collected by government departments, as shown in Statement No. 5	54,169,000
	$1,073,102,000

The following matters relating to my examination of revenue accounts for the year ended 31 March 1980 are brought to the attention of the House of Assembly in this section of my Report.

17. **Audit of Provincial Income Taxes.** In his report last year on this topic, the Auditor General referred to these facts: A substantial source of revenue of the Province is Income Taxes, both individual and corporation, which, by Agreement, are collected by the Government of Canada on behalf of the Province; however, due to provisions of the collection agreement, the Auditor General of the Province is unable, himself, to perform the audit work required to express an opinion on the provincial tax revenue.

At the Annual Meeting of the Canadian Conference of Legislative Auditors, in September 1978, the role of the Government of Canada in the collection of provincial income taxes and the limits placed on provincial auditors were discussed. As a result, a task force was established early in 1979, to address concerns of the legislative auditors in these matters. The actual audit work was performed by the staff of the Auditor General of Canada, and the task force undertook to review this audit work commencing in April 1979. The task force consisted of representatives from the Offices of the Auditor General of Canada, the Provincial Auditor of Ontario, and the Auditor General of Alberta.

At the Annual Meeting of the Canadian Conference of Legislative Auditors held in St. John's, Newfoundland, in August 1979, the progress report of the task force was presented and reviewed. It had considered the two major concerns of the provincial auditors: First, the provincial legislative auditors desired additional audit assurance to support their opinions on their provincial income tax revenue and credits, because the tax collection agreements, for all intents and purposes, prohibit them from auditing most aspects of a taxpayer's return. Second, if each legislative auditor were to audit to the extent permitted under the provisions of the agreements, there would be considerable duplication of effort and unnecessary disruption for officials and staff of the Department of National Revenue, Taxation, and the Department of Finance.

A description of the work of the task force, as follows, is set out on page 369, Report of the Auditor General of Canada to the House of Commons, fiscal year ended 31 March 1980:

> "The task force's work consists of reviewing this Office's audit programs, findings and reports relating to assessing, proper allocation and accounting for personal and corporate income tax and various provincial tax credits and reporting whether the concerns expressed by provincial legislative auditors have been adequately addressed in the audit work. The work of this task force will provide the provincial legislative auditors with additional audit assurance they can use in formulating their opinions on their provincial income tax revenue and credits while at the same time remaining within the strict provisions of the federal-provincial tax collection agreements. The task force provides an example of co-operation to achieve value for money in Canadian legislative auditing."

The final report of the task force has not been issued at this date (January 1981). However, there are no indications that the personal and corporation income taxes were not correctly assessed, properly allocated and transferred by the Government of Canada on behalf of the Province.

Department of Finance

18. **Incorrect accounting treatment for certain revenue received from the Government of Canada.** One of the stated Significant Accounting Policies of the Province is that "Revenues are recorded when actually received, except that amounts received from the Government of Canada by 30 April, which relate to previous financial years, are included in the previous financial year."

My audit of current account revenue for 1979-80 disclosed that an amount of $13,764,731, representing an adjustment of prior years' fiscal transfer payments, was received by the Province from the Government of Canada on 1 April 1980. However, this amount had not been included in the accounts of the Province for the 1979-80 financial year. As a result of audit, the Department of Finance agreed to make a correcting adjustment and the amount is now included, as current account revenue, in the Public Accounts of the Province for 1979-80.

I recommend that the Department of Finance review the circumstances of the above-mentioned matter and ensure that, for the future, the internal control procedures of the Department are such that all revenue from the Government of Canada is accounted for in accordance with the Province's accounting policies.

19. **Interest and penalty provisions not adequate to encourage full compliance with taxation legislation.** The interest rates and other penalty provisions for non-payment or late remittance of taxes under provincial taxation legislation have, in most cases, gone unchanged for a number of years. The situation, in my view, has reached the point where the routine application of such penalties no longer represents a significant deterrent against extended periods of delinquency by various taxpayers and tax collectors.

For example, under The Retail Sales Tax Act, 1978, the interest rate on arrears of tax is one per cent simple interest per month. This particular penalty provision has been in effect since 1968 and has become, in my view, completely inadequate. The Province was owed in excess of eleven million dollars in retail sales tax arrears, as at 31 March 1980. Some of these arrears are being paid by vendors in monthly instalments and will take a period of years to liquidate. The rates in effect and the application of other penalty provisions do nothing to discourage this type of arrangement. If the Province is to enforce its demands for payment of all tax when due, it has to raise its interest and penalty rates to a level that will make it financially unattractive for a business to withhold its tax payments in contravention of the taxing legislation.

The Auditor General has expressed concern on this matter to the Department of Finance on several occasions over the past few years. In December 1978 the Department advised that the interest rates were satisfactory because they were close to the current bank rate and did in fact achieve the intent of the Act. I cannot agree. There is no doubt in my mind that the rate of interest and other penalty provisions contained in the taxing legislation are intended to represent a deterrent to non-payment of taxes due and should not represent a competitive rate of financing. It certainly does not accomplish the real intent at one per cent simple interest monthly. If this was deemed to be an adequate deterrent in 1968, it certainly is not in 1980. I have been advised, in October 1980, subsequent to the year under review, that the Department of Finance is undertaking a review of its taxing legislation with a view to preparing amendments for presentation to the House of Assembly.

In my opinion, all taxing and revenue-producing legislation should be reviewed to ensure that the various penalty provisions are of sufficient strength to encourage full compliance by all taxpayers and tax collectors.

20. **Tax on pari-mutuel betting.** The Horse Racing (Regulation and Tax) Act, Chapter 155, R.S.N., 1970, provides for the regulation of horse racing and the imposition of a tax in respect of bets placed thereon. The legislation provides that a tax equivalent to 11 per cent of the amount bet be collected by the race course operator and paid over to the Province at the times and in the manner prescribed in the regulations.

As a result of my 1979-80 audit of this tax source, I wish to direct attention to the following matters:

Tax not being remitted in accordance with the Act and Regulations — Regulation 8 states that "Every operator shall remit to the Minister (of Finance) the amount of tax collected at a race meeting immediately after the last race has been concluded and shall at the same time forward to the Minister a return of the tax collected at that race meeting in Form 1."

The operator has been submitting returns and remitting the tax, monthly, rather than in accordance with the Regulation. This arrangement was authorized by officials of the Department of Finance. Consequently, the provisions of the taxing legislation are not being properly enforced by the Department.

Provision of Minute of Council not carried out — In 1966 the Province agreed to fully guarantee the payment of a bond issue of $126,000 by the operator. The annual debt charges on the bonds have been paid mainly by the Province by making grants to the operator out of the proceeds of the pari-mutuel tax collected by the operator on behalf of the Province.

A Minute of Council, issued in December 1977, ordered that the Minister of Finance is authorized "to enter into a new guarantee agreement with the company containing such terms and conditions as are acceptable to the Department of Finance." However, a new agreement was not executed. In my opinion, this deficiency should be remedied.

I note that the operator has been receiving substantial grants from the Province since 1964. Also, the annual grant currently stands at 72.7 per cent of the annual tax collected by the company on behalf of the Province. This amounted to $111,914 during 1979-80.

In my opinion, the Department of Finance, in order to effect a measure of control over such grants of public funds, should take action to complete the agreement provided for in the Minute of Council. It appears to me that the proposed agreement should include such requirements as may be appropriate having regard to both the guaranteed debt and the annual grants being made to the operator.

Lack of compliance audit relative to The Horse Racing (Regulation and Tax) Act — There is no evidence that the Department of Finance has ever undertaken a review of the operator's records and operations to establish compliance with all provisions of The Horse Racing (Regulation and Tax) Act. Instead, it has been relying on figures supplied annually by the Federal Department of Agriculture to ascertain the amount of business done by the company. These federal figures, in my view, represent supplementary information only and should not be treated as replacing detailed legislative compliance audit. In my opinion, such compliance audits should be carried out periodically by officials of the Department of Finance.

21. **Irregular transaction involving reversion of certain timber limits to the Province.** During 1979-80 the Province entered into an agreement with a landholder to have some 1,300,000 acres of timber limits revert to the Province. The reversion was undertaken when it was established that the limits were surplus to the holder's operating needs, were not being harvested and, therefore, were not being managed in accordance with criteria set out in The Forest Land (Management and Taxation) Act, 1974. It was agreed that the transfer of the limits from the holder to the Province would involve no cost to the Province, even though the transfer agreement stated that the limits would be transferred in consideration of the sum of $1,225,000. The arrangement agreed to was an exchange-of-cheques procedure as follows:

(i) The Province would make a payment of $1,225,000 to the landholder as payment for the timber limits as stated in the reversion agreement.

(ii) The landholder would, at the same time, make a payment of $1,425,000 to the Province. Of this amount, $1,225,000 was stated to be a donation to the Province. The additional $200,000 was stated to represent a payment requested by the Province from the holder in lieu of provincial corporate income tax, which the Province would not otherwise receive because the landholder would be deducting its donation to the Province, in determining its taxable income.

My review of matters surrounding the reversion of these timber limits and the exchange-of-cheques transaction disclosed that:

(i) There was significant evidence that the timber limits in question were not being properly managed. However, unmanaged land tax was not assessed in accordance with the forest management tax legislation. Officials of the Department of Forest Resources and Lands estimate that this tax, if assessed, would exceed $450,000 for the 1978 taxation year.

(ii) The exchange-of-cheques procedure was concluded, even though the Department of Finance expressed the view, in writing, that the Province should not become involved in any scheme concerning an arrangement that would see Federal taxes lost.

(iii) A provision of The Forest Land (Management and Taxation) Act, 1974, requires that no compensation be paid in respect of a forfeiture of timber limits under the Act. Yet, the signed agreement between the Province and the holder of the limits set compensation at $1,225,000.

As a result of my audit, I am not satisfied that:

(i) all provisions of The Forest Land (Management and Taxation) Act, 1974, were strictly enforced in dealings between the landholder and the Province;

(ii) the exchange-of-cheques procedure was a satisfactory method of concluding such a transaction, particularly in light of the stated objection of the Department of Finance.

22. **Refunds of tax**. In accordance with Section 67(4)(g) of The Financial Administration Act, 1973, I report that refunds of tax during 1979-80 were made as follows:

Gasoline and Fuel Oil Tax	$546,000
Retail Sales Tax	219,000
Mining Tax and Royalties	98,000
Forest Management Tax	23,000
Insurance Companies Tax	7,000
Insurance Premiums Tax	4,000
Tobacco Tax	2,000
Other	1,000
	$900,000

Department of Justice

23. **Accounting system at the St. John's Traffic Court**. In paragraph 61 of his 1977-78 Report, the Auditor General disclosed that an audit was undertaken on the accounts of the St. John's Traffic Court covering the period 1 April 1976 to 31 March 1978, but could not be concluded because of the condition of the accounting records. The deficiencies which were identified in the accounting operations of the Court were reported to the Department of Justice in a management letter of 27 September 1978.

During the 1979-80 fiscal year, an audit was again undertaken on the accounts of the Traffic Court. Audit tests were performed for the period 1 April 1978 to 31 December 1979 (the date of the introduction of the new computer system). The audits disclosed that a number of the deficiencies that were previously identified and reported continued to exist. These deficiencies were again reported to the Department of Justice in a management letter dated 23 September 1980.

My staff also performed a review of the new computer system which began operating at the Court on 1 January 1980. Extensive deficiencies were identified in this system. These were reported to the Department in a management letter of 30 July 1980.

My staff returned to the Court on 4 December 1980 to review the matters which had been reported upon and to see what progress was being made to resolve the deficiencies. Although some improvements had been made, the majority of the reported items, particularly those relating to the computer system, were not resolved. However, the Department of Justice has advised me that Newfoundland and Labrador Computer Services Limited have completed a review of the computer system and recently (1 December 1980) made recommendations to the Department for system modifications.

Department of Forest Resources and Lands

24. **Inadequate procedures for administering the legislation and collecting revenue from sawmill licencing.** The audit of revenue collected during 1979-80 from the issuing of licences to operate sawmills, under The Saw Mills Act, Chapter 344, R.S.N., 1970, disclosed weaknesses in administrative and accounting control as follows:

(i) A number of sawmills were operating for various periods during the 1979-80 licencing year and certain prior years without a valid licence. This resulted from operators not complying with the renewal provisions of the legislation by the due dates set out in the Act and Regulations. I note further that the penalty provisions of the legislation were not invoked where operators did not comply with the renewal regulations.

(ii) Reconciliations were not prepared to agree the value of licences issued with the monies collected and deposited to the Consolidated Revenue Fund.

(iii) The Department has not documented and implemented adequate procedures and instructions to be followed by both Head Office and field staff in order to provide

  (a) an adequate accounting system with all responsibilities fixed, designed to control the collection and proper recording of all revenue due under the legislation;

  (b) assurance that laid-down procedures based on the requirements of the Act and Regulations are in effect to ensure full compliance and enforcement.

The Auditor General last reported these deficiencies to the House in his 1976-77 Report. Since then the Department has not taken sufficient remedial action. I am aware that the Department has reviewed its procedures in this area and has recognized that there are deficiencies, including a need for certain legislative changes. Action should be taken without further delay to implement all corrective measures.

Department of Tourism, Recreation and Culture

25. **Continuing failure of Department to eliminate weakness in control over licences**. The Department of Tourism, Recreation and Culture is responsible for accounting for inland fish and game licences issued and for the revenue realized from the sale of such licences. During the 1979-80 fiscal year revenue received from this source amounted to $812,360, including $522,271 realized from the sale of big game licences.

In his Reports to the House of Assembly, commencing with that for 1974-75, the Auditor General reported upon a number of weaknesses in the system of internal control for the issuing of licences. In these reports he expressed a concern that certain "reconciliations" were not prepared. This meant that the Department did not tie in the total value of licences sold with the total proceeds received and/or receivable from vendors.

The audit for the year ended 31 March 1980 disclosed that the Department did reconcile some of its accounts. However, the total proceeds, $522,271, realized from the sale of big game licences, was not reconciled with the value of licences sold. The failure of the Department to have this reconciliation prepared is, in my opinion, unsatisfactory, particularly in view of the fact that attention has been drawn to it in the Auditor General's Reports of the past five years.

COMMENTS ON EXPENDITURE AND RELATED REVENUE

Executive Council

26. **Fees paid to a group of public relations and communications consultants, not supported by adequate documents**. Expenditure charged to Executive Council, Subdivision 307.03, Special Action Group, Resource Public Relations Program, in 1978-79, comprised mainly payments made to a group of public relations and communications consultants. Of the total payments made to the consultants, $515,398, amounts totalling $169,881 were invoiced as representing fees for services rendered. Payment for services rendered was provided for in a contract for services entered into in September 1978, which stated that "Payment shall be computed by using payroll costs as a base. The payroll cost rates must be approved by the Departmental Representative, and no change in the payroll cost rates may be made without the approval of the Departmental Representative (the President of the Executive Council or his designate)."

My auditor was unsuccessful in his efforts to obtain any payroll cost rates which had been approved by the Departmental Representative. Furthermore, supporting documents were not adequate to enable the auditor to satisfy himself that those fees invoiced and paid were in accordance with those fees provided for under the contract.

In the absence of adequate documents to support the fees paid, it is questionable, in my opinion, as to how those departmental officials who authorized the payments were able to satisfy themselves on the propriety of fees, totalling $169,881, paid during 1978-79.

Department of Finance

27. **Audit of the General Service Payroll System**. In paragraph 29 of his 1978-79 Report, the Auditor General summarized the results of his audit of the General Service Payroll System. He noted that two reports had been issued to the Department of Finance, the Treasury Board Secretariat and Newfoundland and Labrador Computer Services Limited on the results of this audit during 1979, and that these reports had identified a number of control weaknesses in the system. The possible exposures which would result from such control weaknesses were:

(i) unauthorized, fraudulent or incorrect payroll transactions could be initiated;

(ii) payroll transactions could be added or lost during processing;

(iii) payroll processing errors could remain undetected;

(iv) terminated employees could continue to be paid; and

(v) payroll expenditures could be inaccurately accounted for and reported in the government accounts.

To reduce the risk of such exposures, the Auditor General made a number of recommendations designed to overcome or eliminate the control weaknesses.

I now report my concern that, although the Department of Finance has agreed with the major recommendations of the Auditor General, it has not implemented such recommendations to date. I note that in November 1980 the Department of Finance informed me that procedures to eliminate the identified control weaknesses were still at the planning and testing stage and that it was expected that such procedures would be implemented by 1 April 1981.

It is my intention that a review of the General Service Payroll System should be carried out during the 1981-82 fiscal year. When this review is completed, the Auditor General should be in a position to report on whether or not the control weaknesses have been eliminated.

28. **Questionable budgetary control over Task Force expenditure**. In April 1978 a Cabinet Directive ordered the appointment of a Task Force to study the quality of education in the Province and the implications of declining enrolments on elementary-secondary education. The study was to result in two reports being submitted, one by 30 June 1978, and the other by 31 December 1978.

Treasury Board approved a budget of $113,300 for the project in May 1978, based upon estimates of costs submitted by the Task Force and the Department of Education. The Board also requested the Department to ensure a close scrutiny of expenditure. An interim report was submitted by the Task Force in June 1978 and another report in April 1979, but a final report to complete the original terms of reference had not been submitted at date of audit (November 1980).

Over the past two years several revised budgets have been submitted and the total budget now stands at $241,426, an increase of 113 per cent over the original budget.

My review of related files in the Department of Education disclosed the following:

(i) The budgetary allocation for the project was approved in the Department of Finance, although the project was the administrative responsibility of the Department of Education.

(ii) The original budget was approved by both the Treasury Board and the Lieutenant-Governor in Council, but the budget in total, as revised, was not so approved.

(iii) The Task Force commenced work in May 1978, even though the Special Warrant providing funds for the project was not approved until August 1978.

(iv) There was an overpayment of $16,416 on account of a billing by Memorial University of Newfoundland for Task Force salaries. This overpayment has since been corrected.

(v) It took the Department of Education six months to arrange the additional funds it needed for a revised Task Force budget through the Department of Finance and Treasury Board. Even though the additional funds had not been provided, the Task Force continued its work and incurred additional costs.

(vi) The accounting controls in effect were not adequate to correctly approve, accumulate, monitor and pay all of the costs of the Task Force.

In my view, greater budgetary control should be exercised over such projects.

I recommend that this control should include the following provisions:

(i) Increased total budgetary allocations should receive the same level of approval as the original budget.

(ii) Budgetary allocations should be provided for in the department that is responsible for administering the project.

(iii) All payments made by the Province on behalf of a Task Force should receive approval by the Head of the Task Force before receiving departmental approval for payment.

(iv) Adequate subsidiary accounting records should be maintained by the department to facilitate adequate monitoring of expenditure and budget.

(v) Work on a project should not commence until a legislative appropriation has been provided to accommodate payments.

(vi) If Task Force members and staff are paid through the government payroll system, adequate procedures should be in place to provide for control over salary payments and proper documentation relating therto.

(vii) Terms of Reference should be adequately planned and researched so as to permit specifically detailed documentation of the requirements of the project, including time constraints and budgetary limits. This will permit Treasury Board and the Executive Council to consider and evaluate all of the costs and benefits of a project before it is undertaken.

Department of Education

29. **Breakdown in the system of internal control over the processing of payment vouchers**. The audit of Subdivision 604.03, School Supplies, Purchase and Distribution of School Supplies, identified four vouchers, totalling $128,684, which were processed and paid without the payment certification stamp having been properly completed. For two of the four vouchers (payments amounting to $99,221) no part of the certification stamp was completed at all, while for the other two vouchers, only part of the stamp was completed.

It is an integral part of the system of internal control over the processing of payment vouchers to see that the certification stamp is properly completed. The stamp provides for the initials and/or signatures of the individuals who ensure that:

(i) goods or services are received in good order;

(ii) prices are fair and just;

(iii) extensions are correct;

(iv) the invoice agrees with the purchase order; and

(v) the invoice is certified for payment by a responsible official.

In my opinion, the further processing of vouchers when the certification stamp has not been properly completed reflects a breakdown in internal control.

This matter was brought to the attention of the Department of Education in a letter dated 12 August 1980. In its response, the Department noted that the certification was not completed because of a misunderstanding and indicated that in future all invoices would bear the properly completed certification stamp.

30. **Progress in the audit of Teachers' Payroll System**. Members of my staff have been involved for some time in carrying out a complete review, evaluation and audit of the Teachers' Payroll System, which is administered by the Department of Education. Approximately 8,000 teachers are paid through this system and the expenditure for the 1979-80 year was nearly $180 million.

The initial stages of the audit have been completed and on 12 December 1980 I issued a management letter on audit findings to that date. The most serious deficiency observed was the almost complete lack of internal control within the Teachers' Payroll System. My overall recommendation to the Department of Education was that it should, as soon as possible, undertake an extensive review of the entire Teachers' Payroll System with a view to evaluating it and taking corrective action where necessary.

The audit of the System will be continued, and it is my intention that a detailed report on the final results should be included by the Auditor General in his next year's Report.

31. **Payment of $25,000 without legislative appropriation**. My audit of Subdivision 617.03.01, Other Grants, Operating Assistance and Grants, Eskimo and Indian Education, disclosed that a payment of $25,000 was made to a School Board in Labrador to reimburse it for funds spent for the professional services of an Architect on the preliminary planning and design for a community school.

Funds appropriated by the House of Assembly for 1979-80 under Subdivision 617.03.01 did not contain any provision for the above-noted expenditure. Therefore, the payment to the School Board was made without legislative authority and contrary to Section 29(a) of The Financial Administration Act, 1973.

I note that this is the second consecutive year an irregular payment of this type, relative to Grants for Native Schools, has been cited in the Report of the Auditor General.

32. **Objection of Auditor General upheld by Treasury Board.** In paragraph 30 of his 1978-79 Report the Auditor General stated, among other things, that:

> "In order that the matters reported in this paragraph will receive follow-up attention, I have communicated my objection, to the charge of $50,000 to Subdivision 615.03.01 in 1978-79, to the Deputy Minister of Education and to the Comptroller of Finance, as provided for under Section 64(1) of The Financial Administration Act, 1973."

I now report that I have received information (on 28 January 1981) from the President, Treasury Board, to the effect that the above-mentioned objection of the Auditor General has been upheld by the Treasury Board. The information also advises that, the Board is in the process of forwarding its directive on the matter to the Lieutenant-Governor in Council, as required by Section 64(3) of The Financial Administration Act, 1973. Also, on behalf of the Treasury Board, the President has written the Honourable Minister of Education requesting that: appropriate action be taken to prevent similar occurrences in the future; and, the departmental officials involved be advised as to the proper procedures to follow regarding similar types of incidences, in order that they may be prevented in future.

Department of Justice

33. **Weaknesses in internal control over payments for police vehicle repairs.** Audit of the Department of Justice, Subdivision 705.02.07, Police Protection, Vehicle Repairs and Maintenance, for the 1978-79 and 1979-80 fiscal years disclosed a lack of internal control over the administration of and payment for police vehicle repairs. This matter was reported to the Department on two separate occasions in management letters.

In 1980 the Internal Audit Division, Department of Finance, performed an analysis, at the request of the Department of Justice, of payments made to the company which had the vehicle repair contract. Its report disclosed that overpayments, totalling $3,938, had been made for vehicle repairs. The report outlined other weaknesses in administering payments for repairs, including:

(i) the individual responsible for ensuring that prices charged were fair and just and in agreement with the contract did not have a copy of the contract;

(ii) certain repairs were paid for, although not billed at the correct rate; and

(iii) there were arithmetic errors in work requisitions and suppliers' statements.

The Department has not recovered the full amount of the overpayment of $3,938. On 29 September 1980 it requested approval from Treasury Board to write off a remaining outstanding balance of $2,497.

I note that a new policy for police motor vehicle repair has been adopted by the Department of Justice. It requires that new administrative procedures be followed.

34. **Overdrawn sick leave resulting in salary overpayments of $15,164.** During the 1978-79 fiscal year, the Department of Justice determined that four employees were overpaid as a result of overdrawn sick leave taken in 1977 and prior years.

The Department has undertaken to recover these overpayments through salary deductions of $25 per pay period from each of the four employees. As at 31 March 1980, $4,463 had been recovered leaving an outstanding balance of $10,701.

These overpayments are of audit concern because:

(i) sufficient controls were not in place to prevent them;

(ii) they are not included in the accounts receivable listing of the Department at 31 March 1980; and

(iii) at the current rate of recovery it will take approximately eight years, from 31 March 1980, to recover the amount overpaid to one individual.

Department of Mines and Energy

35. **Contracts not entered into with applicants receiving funds under a Federal-Provincial Cost-Sharing Agreement.** On 1 June 1979 the Province entered into an agreement with the Government of Canada entitled, Canada-Newfoundland and Labrador Agreement on the Development and Demonstration of Renewable Energy and Energy Conservation Technologies.

The agreement provided for a cost-sharing program for funding various energy-related projects, as proposed by any party, public or private, and as approved under the provisions of the agreement. Also, the agreement provided that payments of contributions to approved applicants should be made to them "pursuant to approved contracts with such applicants . . . ."

At audit date (August 1980), approximately $390,000 has been either committed or paid without the benefit of signed contracts between the Province and various approved applicants.

In my opinion, the absence of contracts with respect to the projects undertaken

(i) is contrary to the requirements of the agreement, and

(ii) reflects a significant weakness in control over this program, which is being administered by the Department of Mines and Energy.

I note that the foregoing audit comments resulted from work performed by my audit staff after a senior departmental official sought assistance from the Auditor General in confirming perceived financial control weaknesses and advice on rectifying the situation. I have been informed (on 26 January 1981) by that official, in writing, that (a) since deficiencies were initially identified by him (in June 1980) he has refused to approve the issue of any cheques for any invoice under the cost-sharing agreement, and (b) within the next two or three weeks all contracts under the Federal-Provincial cost-sharing agreement will be signed.

Department of Tourism, Recreation and Culture

36. **Payment without legislative appropriation.** Expenditure charged to Subdivision 1307.05.01, Cultural Affairs, Encouragement of Cultural Activities, Grants and Awards, includes a payment of $45,000 for financial assistance given to a local book-publishing company by way of the purchase of some of its inventory of books. Most of the books purchased were for delivery to and for use by the Department of Education for distribution to schools; the remainder were for delivery to public libraries and the Department of Tourism, Recreation and Culture.

There were no funds appropriated under Subdivision 1307.05.01 of the approved Estimates for 1979-80 against which the expenditure of $45,000 could properly be charged. Therefore, in my opinion, the payment was an issue out of the Consolidated Revenue Fund without legislative appropriation and was made contrary to Section 29(a) of The Financial Administration Act, 1973.

37. **Improper charge to subdivision.** Expenditure under Subdivision 1307.05.01, Cultural Affairs, Encouragement of Cultural Activities, Grants and Awards, includes a payment of $70,000 to the Newfoundland and Labrador Arts Council to be used for administration and grants purposes. That payment is an improper charge to Subdivision 1307.05.01.

In calling attention to this matter, I note that the Estimates for 1979-80 included a provision of $180,000, under Subdivision 1307.06, Cultural Affairs, Newfoundland and Labrador Arts Council — Grant. This provision was intended to provide spending authority under which the Department of Tourism, Recreation and Culture would provide a grant to a Newfoundland and Labrador Arts Council, when it became established by an Act of the Legislature.

Further reference is made to the above-mentioned payment of $70,000 in paragraph 38 of my Report.

38. **Payment of public money to a non-existing corporation.** Section 4 of The Arts Council Act established a corporation to be known as the Newfoundland and Labrador Arts Council. The Arts Council Act was assented to on 28 May 1980, which is the date the Council came into existence.

The audit of expenditure charged to Subdivision 1307.05.01, Cultural Affairs, Encouragement of Cultural Activities, Grants and Awards, disclosed that a payment of $70,000 was made to the Council on 28 March 1980, which was two months before it was legally established by an Act of the Legislature. Paragraph 37 of my Report also refers to this payment.

The accounts of the Council show that, from the $70,000 received, amounts totalling $10,295 were paid out during a period before the Council came into existence.

In my opinion, it is irregular that the Department of Tourism, Recreation and Culture paid out public money to a non-existing corporation; furthermore, it is improper that such money should have been received by anyone, and a portion of it disbursed, in these circumstances.

39. **Weaknesses in the administration and control of the Community Sports Facilities, Recreation Capital Grants Program.** During 1979-80 the Department of Tourism, Recreation and Culture provided $2,567,903 in grants to various incorporated communities, rural areas and other groups to assist in the construction of sports facilities, the purchase of equipment, and for other items. The Department has guidelines which outline the provisions of the program and detail the information required from applicants for the various types of capital grants.

My audit of the grants paid during 1979-80 disclosed that in a number of instances the requirements of the guidelines were not complied with by the applicants, nor enforced by the Department. In certain instances there was no evidence that:

(i) the prescribed application for assistance forms had been submitted for approval; and

(ii) project feasibility studies, plans and specifications, etc., had been submitted by the applicants for approval.

I call attention to one project in particular in which a commitment was given in 1976 to provide $350,000, over five years, to a certain municipal authority to assist in the construction of a stadium. The Department's file disclosed that this commitment was given by a senior government official during a meeting. However, with respect to the grant, the file did not contain a formal application for assistance, a feasibility study, or plans and specifications for the facility. Furthermore, a letter on file at the Department from a departmental official about the facility states that; "I understand it was supposed to be a stadium, however, it is our view that it is not a stadium and can never be a stadium." The letter goes on to say that due to the size and location of the structure, artificial ice making would not be feasible. I note that the Department continues to pay out each year $70,000 towards the cost of this structure, for a total of $280,000 paid to audit date, November 1980.

My audit also disclosed that there were two grants paid out, under the Incorporated Sports Clubs and Associations section of the guidelines, that were in excess of the limit of $12,000 per year.

Section 18 of The Department of Tourism, Recreation and Culture Act permits the Lieutenant-Governor in Council to make regulations providing for any matters concerning which he deems regulations are necessary or desirable to carry out the purposes and provisions of the Act. Under the Act, such regulations could be made respecting the provision of financial assistance for the encouragement, promotion, establishment, development, co-ordination and implementation of amateur sport, fitness and recreational activities. However, audit disclosed that no such regulations have been issued.

In my opinion, the existing guidelines applicable to this capital grants program are treated as flexible and, therefore, do not result in consistent administration and control of the program. These guidelines should be replaced by regulations issued under Section 18 of The Department of Tourism, Recreation and Culture Act.

40. **Administration of grants without regulations.** Expenditures charged to Subdivision 1310.03, Youth Services, Grants to Youth Organizations, amounted to $209,994 during 1979-80. Audit disclosed that there were no regulations or clearly written departmental procedures for the guidance of employees in administering these grants. In my opinion, the procedures followed in approving such grants were too flexible to provide for consistent administration and control over these expenditures. This situation is likely to continue unless regulations and, if necessary, related clearly-written procedures are issued for use by the officials adminstering these grants.

Department of Industrial Development

41. **Purchasing of services without proper authority.** The audit of expenditure charged against Subdivision 1505.03, Project Development and Promotion, Promotion, disclosed that during 1979-80 the Department of Industrial Development made certain purchases without complying with the purchasing procedures established by the Government Purchasing Agency for government departments. These purchases, totalling $26,094, were mainly for sevices of various shipping agents and other groups involved with displays arranged for the Department at out-of-province exhibitions and trade fairs. It appears that the departmental officials responsible for arranging for the displays considered the expenditure involved to be of an unusual type. Consequently, they did not consider it necessary to have purchase orders issued to cover the services and/or materials supplied. As far as I was able to ascertain, the Government Purchasing Agency did not authorize the Department to acquire the services and/or materials, nor was it aware that the related expenditures had been incurred without proper purchasing authority.

Department of Transportation and Communications

42. **Public tenders not called for road-maintenance operations.** During 1979-80 the Department of Transportation and Communications engaged various companies and persons to provide road-maintenance services, including snow clearing. The Public Tender Act, 1974, requires that, with certain exceptions, public tenders shall be called for the execution of public works which have a value of $15,000 and over.

Audit disclosed that during 1979-80 several companies were paid amounts exceeding $15,000, for road-maintenance work, for which public tenders had not been called.

In my opinion, the Department should review and amend its procedures for awarding its maintenance work, to ensure that the procedures provide that public tenders will always be called, where required.

I am advised by the Department that public tenders have been called for snow-clearing operations for the 1980-81 year. This procedure should be extended to other areas of road maintenance, where necessary, to comply with The Public Tender Act, 1974.

43. **Unsatisfactory administrative and accounting control over use of government air services.** In previous Reports, the Auditor General has commented on the serious lack of control by the Department of Transportation and Communications over the payment of public funds for air services. He concluded that action should be taken, without delay, to develop, document and implement systems and procedures to establish strict and satisfactory control over use of government air services.

My 1979-80 audit disclosed that, in certain areas, the Department has yet to completely rectify the identified weaknesses previously reported.

During the year there continued to be difficulties with:

(i) incomplete documents authorizing use of air services;

(ii) inaccurate and incomplete flight reports;

(iii) instances where passengers on aircraft were not identified on flight reports;

(iv) purposes of trips not being available; and

(v) necessary authorizing signatures not on some flight reports.

As well, there was evidence that the Department was not undertaking a satisfactory scrutiny of all invoices, flight reports, and other supporting documents before making payments to the various companies providing air services. The following cases highlight this deficiency:

(i) Information in two flight reports submitted by a company indicated that one pilot was flying two different aircraft at the same time.

(ii) A company invoiced the Department for a charter at the rate of $275 an hour, although the contract price was $240 an hour. The invoice was paid, resulting in an overpayment of $3,465.

(iii) A company substituted a smaller aircraft than the one under contract but invoiced the Department at the rate for the larger aircraft. The invoice was paid, resulting in an overpayment of $2,438.

(iv) On at least five occasions a company charged the Department for identical flying time, for the same aircraft, on two different flight reports.

(v) Flying hours were invoiced but not supported by flight reports.

(vi) Flying hours were invoiced which did not agree with hours disclosed by supporting flight reports.

In each of these cases, the documents which contained these errors were fully approved by departmental officials.

The Department should take immediate steps to document, implement and enforce instructions and procedures which will provide full accounting and administrative control over the acquisition of government air services.

As a result of comments in the 1977-78 Report of the Auditor General to the House of Assembly, the Public Accounts Committee undertook an in-depth review of matters related to government air services. The findings of the Committee were reported to the House in the Committee's Report tabled on 14 April 1980 on matters related to the 1977-78 financial year. The Committee made a number of recommendations which we expect the Department to implement.

Department of Public Works and Services

44. **Disputed application of spending authority**. In his Reports for the past several years, the Auditor General expressed concern over the transfer of funds between the various distributions as shown in Appendix IV to the Estimates. He reported that appropriations for certain general service charges were voted by the Legislature on the basis of the Estimates, and that Appendix IV of the approved Estimates showed details of the estimated expenditures which were applicable to the various departments of Government.

The total amount voted for general service charges included provision for expenditures which, though initially made by and charged to the Department of Public Works and Services, were transferred, subsequently, to Heads of Expenditure of other departments.

The audit of the Department of Public Works and Services for the 1979-80 fiscal year disclosed the following:

(i) During the year the Department, with Treasury Board approval, transferred $713,500 from Subdivision 1803.05.01, Buildings, Construction and Alterations (Capital), to various current account expenditure subdivisions. These transfers included $219,300 to subdivisions which were not included in Appendix IV of the approved Estimates.

(ii) The Department also transferred $1,514,400, from Subdivisions 1803.05.02, Improvements of Land and Property (Capital), 1803.05.03, Acquisition and Costs of Land and Property (Capital) and 1803.05.04, Leased Accommodations (Capital), to various current account expenditure subdivisions within the Department. These capital expenditure subdivisions, unlike Subdivision 1803.05.01, Buildings, Construction and Alterations (Capital), were not included in Appendix IV of the approved Estimates and therefore expenditures charged to them were not subsequently transferred to the Heads of Expenditure of other departments. I note that $1,200,916 (of the $1,514,400 transferred) was transferred to current expenditure subdivisions which were included in Appendix IV and, thus, this amount was subsequently transferred to the Heads of Expenditure of other departments.

In prior years' Reports, the opinion stated by the Auditor General on the transfer of funds within Appendix IV has been as follows:

> "The transfer of funds within Appendix IV is a major weakness in the administration of budgetary controls relating to the approved Estimates. I am satisfied that some flexibility may be desirable in providing for general operations services common to all or most departments, but I am firmly opposed to the transferring of Capital funds (Buildings, Construction and Alterations) either between Heads or to non-capital uses. Such a practice must be opposed if parliamentary control over the spending of public money is to be upheld."

In his 1978-79 Report, the Auditor General noted that these matters were considered in some depth by the Public Accounts Committee. In its report for the period ended 31 March 1976, tabled in the House of Assembly on 6 April 1978, it stated: "The Committee has reached no conclusions on this matter because it deferred a related matter as a result of a police investigation."

I repeat the above-noted opinion of the Auditor General with respect to the 1979-80 transfers of funds within Appendix IV. Also, I note that the Public Accounts Committee has again considered the topic of such transfers, and I await any further report of the Committee to the House of Assembly on this matter.

45. **Irregularities related to the rental of office space.** My audit of Subdivision 1803.04, Buildings, Rentals, Cleaning and Light, etc., disclosed the following concerning the rental of office space at one location:

(i) In the tender call for Leased Office Accommodations the Department of Public Works and Services stated, in its proposal documents, that "the lease shall not be effective, and no rental payments made until after the completion of the required alterations, as deemed necessary by the Minister." It also stated in the attached offer form, which was completed by the offering company and accepted by the Department, that "The lease will be effective upon the completion of the leasehold improvements required by the Minister." Audit disclosed, however, that the Department paid approximately $170,000 in rent for the period January to August 1980 for space which the government did not take possession of because the necessary renovations were not completed.

(ii) The Department's "Policy Manual" states that a "Specimen Lease" should be included in the proposal documents, where possible, for tender calls for accommodation. The offer submitted by the successful tenderer in this case contained the following: "the lessor agrees as follows: The lease shall be substantially in the form of the specimen lease attached to this offer . . . ." I note that while the Department accepted the tender for office space in October 1978 and has occupied a portion of the space since April 1979, there were disputes on the terms of the lease and as of 4 December 1980, nearly 20 months after space was first occupied, no formal lease had been executed. I note that improvements paid for by the Department up to 31 March 1980 totalled $1,016,824, while rental costs up to 31 March 1980 totalled $690,634.

(iii) The "Instructions to Offerors" issued by the Department indicated that the security deposit would be returned when "a lease of the premises . . . has been fully executed by all parties thereto." The Department returned to the lessor the security deposit in the amount of $18,528, plus interest, without having executed a lease and before occupying all the space.

In my opinion:

(i) The Department should not have paid approximately $170,000 in rent for space which was not taken possession of or ready for occupancy.

(ii) The Department should have ensured that a lease, substantially similar to the "Specimen Lease," was executed before commencing work on the renovations of the office space.

(iii) The Department should not have returned the security deposit until a lease was executed.

46. **Overpayments of $57,785 for leased accommodations.** The accounts receivable listing as at 31 March 1980, prepared by the Department of Public Works and Services, disclosed that rent was overpaid by the Department on six rented premises.

My review of three of these cases revealed the following:

(i) The Department was in arrears the monthly rental of $275 for the months April to June 1979, inclusive. In July the Department paid the arrears and the current month's rent, totalling $1,100. For the months August 1979 to April 1980 the Department continued to pay the amount of $1,100 each month, instead of the monthly rental of $275. Thus, at 30 April 1980, overpayments totalling $7,425 had been made.

(ii) The Department was in arrears the monthly rental of $568.75 for the months February 1979 to June 1979, inclusive. In July the Department paid $3,412.50, which represented the arrears and the rent for July. For the months August 1979 to March 1980 the Department continued to pay the amount of $3,412.50, each month, instead of the monthly rental of $568.75. Thus, at 31 March 1980, the Department had overpaid the landlord $22,750.

(iii) The Department overpaid $19,769 for leased space. The first overpayment was made in August 1979, and continued (with the exception of the month of March 1980, when no payment was made) until June 1980 before being detected.

The overpayments in the above three cases have since been recovered.

The Department also overpaid three other landlords in a similar manner. The total overpaid in these cases was $7,841, of which $6,820 (comprising $2,625, $700 and $3,495 due from the respective landlords) remained outstanding as at 1 December 1980.

In my opinion, these overpayments clearly indicate that serious weaknesses exist in the system of internal control over the rental payments processed by the accounts division of this Department.

47. **Failure to reconcile payments of $700,000 with the actual charges incurred**. My audit of Subdivision 1803.04, Buildings, Rentals, Cleaning and Light, etc., disclosed that the Department of Public Works and Services entered into an agreement in February 1980 with a communications company which provides services to all government departments. The letter of agreement provided that the Department would make equal monthly payments of $250,000 to the company. These payments were based upon the estimated annual cost of the total payments of $3,000,000 which the Department would have to make to the company for the calendar year 1980. The first monthly payment was made for January 1980.

The agreement also provided that the monthly payments would be "reviewed at the end of each quarter and, if necessary, adjusted nearer to actual billings." I note that the Department did reduce its March 1980 payment from $250,000 to $200,000 on the basis that the amounts paid on account to 31 March 1980 would be nearer to the amounts billed to that date.

While the Department of Public Works and Services had the monthly billings verified by those departments incurring the charges, it did not, subsequently, reconcile the total verified monthly billings with the payments made to the company. As of 28 October 1980, almost seven months after the first quarter, the Department had not completed a reconciliation of the payments made up to 31 March 1980, totalling $700,000, with the actual charges incurred and verified. Therefore, it was not in a position to state whether or not the account was over or underpaid as of that date.

In my opinion, the Department should reconcile the payments made with the actual charges incurred and make the appropriate adjustments so as to periodically settle its account with the company as at specific dates.

Department of Municipal Affairs and Housing

48. **Inconsistent accounting treatment for current and capital account expenditure**. In prior years, grants from the Department of Municipal Affairs and Housing to municipalities to meet principal and interest payments due on loans for the installation of water and sewerage systems were charged to current account expenditure of the Province as operating grants. Grants to municipalities to meet principal and interest payments due on loans for paving projects were charged to capital account expenditure of the Province as capital grants.

For 1979-80, this accounting treatment was changed for water and sewerage systems grants and paving grants. The portion of such grants relating to principal was charged to capital account expenditure and the portion relating to interest was charged to current account expenditure.

If these grants had been recorded as in prior years, current account expenditure for 1979-80 would have been increased by $742,638 and capital account expenditure would have been decreased by the same amount.

I note that the expenditure for 1979-80 was charged against the appropriations provided by the House of Assembly. However, the accounting treatment is not consistent with that followed in prior years, and this is disclosed in a note to the Statement of Expenditure and Related Revenue of the Department.

OTHER COMMENTS

49. **Weaknesses in the system of internal control over central cashiering operations.** During 1979-80 my staff reviewed and evaluated the methods and procedures used in the Central Cashier's Section, Department of Finance, for providing control over the receiving, recording and depositing of government funds. The audit disclosed that a number of control weaknesses existed.

My two main concerns are that:

(i) there is insufficient supervisory involvement in the section's overall control process, which results in an unsatisfactory segregation of incompatible duties; and

(ii) there is a lack of documentation setting out, in detail, the total operating plan of the Central Cashier's Section and its relations with other government departments and agencies. The result is a plan of organization which does not adequately fix responsibility for certain important functions.

In a letter dated 27 June 1980 I communicated the details of these concerns to the Comptroller and Deputy Minister of Finance. Additionally, I offered certain recommendations for improving the system. At date of writing of this comment (2 December 1980) I have not had a reply and, therefore, cannot report whether the Department has accepted and implemented any of my recommendations.

The total cash resources of the Province are subject to the central cashiering process. It is, therefore, important that the Department of Finance ensure that its systems and procedures contain all the financial and administrative controls necessary to provide maximum protection of public funds. Any identified control weaknesses should be corrected without delay.

50. **Installation review at Newfoundland and Labrador Computer Services Limited.** During the 1979-80 fiscal year the Auditor General performed an installation review at Newfoundland and Labrador Computer Services Limited (NLCS). This review was necessary relative to audits by the Auditor General of the various government departments and Crown agencies which use the services of NLCS for processing accounting information.

The areas of the computer installation included in this review were:

(i) Organization and administration of the computer center;

(ii) Backup and security relating to the computer equipment, programs, documentation and data files;

(iii) Computer operations, including controls over data received from users; and

(iv) General standards and control procedures.

As a result of the review the Auditor General concluded that, from an audit point of view, NLCS is using acceptable standards of data processing. Provided there are good controls in the user departments and Crown agencies, none of the weaknesses identified in NLCS controls were such that they would compromise the accuracy of the data held in the computer center. However, if the client controls were in any way lacking, then any weaknesses in NLCS controls could be exploited. Audit of user controls would, of course, be implemented in the Auditor General's examination of specific applications.

The control weaknesses identified at NLCS were reported to that corporation on 29 April 1980, together with recommendations for eliminating them. I have been informed by NLCS that action has been taken on some of the recommendations made, and all others are receiving appropriate attention.

51. **Failure to submit Adult Occupational Training Cost Data promptly**. The Province of Newfoundland and the Government of Canada are parties to an agreement under the Federal Adult Occupational Training Act. This new agreement, signed in July 1978 for the fiscal years 1978-79, 1979-80 and 1980-81, replaced similar agreements covering prior fiscal years.

Under the new and previous agreements, the Government of Canada agreed to provide the Province with specified minimum sums of monies each year for the purchase of Institutional Training, including Apprentice Training, offered by the Province, and for the payment of administrative costs incurred by the Province in support of Industrial Training. The amounts received for each fiscal year from the Government of Canada were as follows:

Fiscal Year	Amount
1975-76	$11,929,265
1976-77	13,200,000
1977-78	13,145,569
1978-79	13,313,066
1979-80	13,881,608

Under the agreements, the Province is required to provide the Government of Canada, within twelve months of the end of each fiscal year, with certification of the actual costs incurred in providing the various training courses purchased by the Government of Canada. This cost data is prepared in four separate sections from four different sources. They are the College of Trades and Technology, the College of Fisheries, Navigation, Marine Engineering and Electronics, the Vocational Schools (prepared by the Department of Education) and Apprenticeship Training. Each section of this data is submitted to the Auditor General for certification prior to submission to the Government of Canada. After all of the sections are completed by the parties concerned and certified by the Auditor General, the Department of Education prepares a schedule of consolidated actual costs which it compares with the amounts received from the Government of Canada. This enables the Province to recover any deficits incurred or Canada to recover any overpayments.

In paragraph 43 of his 1978-79 Report, the Auditor General stated that, as of 31 December 1979, the cost data for 1976-77, except for that pertaining to the College of Fisheries, Navigation, Marine Engineering and Electronics, was not submitted for audit until August and November 1979. I now report that this data was subsequently found by my staff to contain material errors and was returned to the appropriate sources for correction. Revised data for 1976-77 was re-submitted for audit in March and July 1980 and was later certified in June and July 1980. At the dates of certification, the cost data for the College of Trades and Technology, for the Vocational Schools and for Apprenticeship Training was overdue to the Government of Canada by twenty-six, twenty-seven and twenty-eight months, respectively.

It was indicated in last year's Report that, as of 31 December 1979, the cost data for 1977-78, except for the College of Fisheries, Navigation, Marine Engineering and Electronics, had not yet been prepared. I now report that the cost data for 1977-78 for the Vocational Schools was received in September 1980 and the audit was commenced in November 1980. However, the cost data for 1977-78 has yet to be received from the College of Trades and Technology and for Apprenticeship Training. As of 31 October 1980, the cost data for 1977-78, except for the College of Fisheries, Navigation, Marine Engineering and Electronics, is overdue for submission to the Government of Canada by nineteen months.

As of 31 October 1980, the cost data for each of the four sections for 1978-79, which was due to the Government of Canada on or before 31 March 1980, had not yet been prepared and was already seven months late.

It is of great concern to me that the Province is not conforming with the terms of the agreements which specify that cost data is required to be submitted to the Government of Canada within twelve months of the end of each fiscal year. I am equally concerned that no improvement has taken place in the timeliness of the preparation of the cost data despite the fact that this situation was reported upon by the Auditor General in his Reports for 1977-78 and 1978-79.

52. **Failure to submit Post-Secondary Education Final Provincial Returns promptly.** In paragraph 44 of his 1978-79 Report, the Auditor General referred to the failure of the Department of Education to submit Post-Secondary Education Final Provincial Returns within the time set by The Federal-Provincial Fiscal Arrangements Act, 1972. At the time of that Report, the completed final return for 1976-77 had not been submitted for audit, although, under the Act, it should have been submitted to the Government of Canada on or before 31 March 1978.

I now report that the final return for 1976-77 was submitted to me for audit on 27 March 1980 and, after adjustments had been made to this return, it was certified by the Auditor General on 9 July 1980, at which time it was twenty-seven months past due.

I note that the return for 1976-77 is the last to be made under The Federal-Provincial Fiscal Arrangements Act, 1972, which covered the period 1 April 1972 to 31 March 1977.

53. **Registry of Supreme Court Accounts**. Section 37(2) of The Judicature Act, Chap. 187, R.S.N., 1970, as amended by Act No. 57, 1974 provides that

> "The Registrar of the Supreme Court shall, as soon as possible after the end of every fiscal year, prepare an account of all moneys held by him as such administrator, guardian, trustee, receiver or liquidator, and shall, on or before the thirty-first day of July in every year, furnish a copy of said account
>
> (a) to the Chief Justice of Newfoundland, for the information of the judges; and
>
> (b) to the Minister of Justice, to be laid before the Legislature within fifteen days after it is received by him if the Legislature is then sitting, and, if it is not, then within fifteen days after the commencement of the next ensuing session."

Section 37(3) states "It shall be the duty of the Auditor General . . . to examine and audit the accounts of the Registrar of the Supreme Court."

In paragraph 45 of his 1978-79 Report, the Auditor General disclosed that the accounts of the Registrar of the Supreme Court were several years in arrears and that the last accounts audited were for the fiscal year ended 31 March 1975.

I now report, with respect to the Registry of the Supreme Court, that:

(i) a new accounting position has been established and filled. It is intended that the accounts and records will be written up to a current date. As well, modifications will be made to the accounting system in order that it will better serve the financial requirements;

(ii) the financial statements for the fiscal year ended 31 March 1976 have been prepared and my audit report on them has been issued; and

(iii) the Registrar has submitted to me for audit the financial statements for the year ended 31 March 1977. The 1978 and subsequent year's financial statements are to be prepared as soon as possible. Audits will be performed in due course.

In reporting on this matter, I note that, under Section 37(1) of The Judicature Act, the Consolidated Revenue Fund of the Province is liable to make good all sums required to discharge any liability which the Registrar of the Supreme Court as administrator, guardian, trustee, receiver or liquidator is required to discharge.

54. **Crown corporation and other audits**. In addition to auditing the Public Accounts of the Province of Newfoundland, the Auditor General is responsible for the audits of approximately fifty Crown Corporations, Boards, Authorities and Sundry Funds administered by the Province, as well as the City of St. John's and seventeen School Tax Authorities. These audits are being performed on a current basis.

A new Act, The Municipalities Act (Statutes of Newfoundland, 1979, Chapter 33) was proclaimed into force with effect from 1 April 1980. This Act gives a municipal council the authority to appoint its auditor or, where this is not done, the Minister of Municipal Affairs and Housing shall appoint an auditor. At the date of this Report (January 1981), the Auditor General has been appointed the auditor of approximately ninety municipalities. These audits are being carried out on a current basis.

ACKNOWLEDGEMENTS

I wish to express my appreciation to the officials and staff of the Departments and Agencies of Government for their co-operation during our audits.

Also, I wish to thank the staff of the Department of the Auditor General for their continued efforts and support during the past year and, in particular, during the past several months.

J. E. Richards, B.Com.,
Deputy Auditor General.

31 January 1981.

APPENDIX I

Other Financial Information

- Summary of revenue, expenditure and related revenue by departments
- Receipts and payments after the close of the financial year
- Comparison of out-turn for the year with estimates approved by the Legislature
- Cash requirements, 1979-80
- Statement of changes in financial position
- Comparison of actual and estimated revenue, expenditure and related revenue
- Appropriations by the Legislature
- Unexpended balances of appropriations

Appendix I

OTHER FINANCIAL INFORMATION

Summary of revenue, expenditure and related revenue by departments

The summary for the year ended 31 March 1980, as prepared by the Department of Finance, and included in the Public Accounts as Statement No. 3, shows an out-turn for the year as follows:

	(thousands of dollars)
Total expenditure (net)	1,194,980
Total current account revenue	1,073,102
Excess of expenditure (net) over revenue for the year	121,878

The excess of expenditure over revenue for the year comprises net expenditure of $163,484,000 on capital account, and the surplus of $41,606,000 on current account.

A recapitulation of the totals shown in the summary of revenue, expenditure and related revenue by departments is as follows:

Current Account

	(thousands of dollars)		
Revenue			1,073,102
Expenditure (net):			
Consolidated fund services (gross)	204,457		
Less: Related revenue	43,589	160,868	
Supply services (gross)	969,634*		
Less: Related revenue	99,006	870,628	1,031,496
Surplus on current account			41,606

Capital Account

	(thousands of dollars)	
Expenditure (net):		
Consolidated fund services		1,168
Supply services (gross)	258,121*	
Less: Related revenue	95,805	162,316
Net expenditure on capital account		163,484
Excess of net expenditure on capital account over surplus on current account		121,878

*Includes some statutory payments.

Receipts and payments after the close of the financial year

The figures for related revenue on current and capital accounts include $31,239,000, representing amounts received from the Government of Canada during April 1980 and relating to the financial year 1979-80. Such inclusion is permitted by Section 16 of The Financial Administration Act, 1973.

The amounts of current and capital account expenditure include $54,447,000, representing payments made in April 1980 relating to the financial year 1979-80. Such inclusion is permitted by Section 24 of The Financial Administration Act, 1973.

Comparison of out-turn for the year with estimates approved by Legislature

The following summary compares actual amounts for the fiscal year 1979-80 with amounts included in the Statement (Summary of Borrowing Requirements and Sources of Funds) of the Estimates approved by the Legislature.

	Estimates	**Actual**	**Increase (Decrease)**
	(thousands of dollars)		
BUDGETARY REQUIREMENTS:			
Current Account:			
Gross Expenditure	1,167,909	1,174,091	6,182
Related Revenue	144,046	142,595	(1,451)
Net Expenditure	1,023,863	1,031,496	7,633
Revenue	1,034,678	1,073,102	38,424
Surplus	10,815	41,606	30,791
Capital Account:			
Gross Expenditure	253,641	259,289	5,648
Related Revenue	106,270	95,805	(10,465)
Net Expenditure	147,371	163,484	16,113
Total Budgetary Requirements	136,556	121,878	(14,678)
DEBT RETIREMENT:			
Redemptions	43,587	49,027	5,440
Sinking Funds	26,643	27,609	966
Total Debt Retirement	70,230	76,636	6,406
Total Budgetary Requirements and Debt Retirement	206,786	198,514	(8,272)

Cash requirements, 1979-80

The Estimates projected total cash requirements from borrowings for 1979-80 to be $206,786,000. The estimates and the actual borrowings are compared below:

	Estimates	Actual	Increase (Decrease)
	(thousands of dollars)		
General Borrowings	165,000	50,000	(115,000)
Canada Pension Plan	38,900	40,070	1,170
Canada Mortgage and Housing Corporation	2,886	3,544	658
	206,786	93,614	(113,172)

The funds provided from borrowings, $93,614,000, were less than the total cash requirements for actual net expenditures (payments) of $198,514,000 (comprising budgetary payments, $121,878,000 and debt retirement and sinking fund payments of $76,636,000). The difference of $104,900,000 was met mainly from an increase in the bank overdraft and a realization of short-term investments.

Statement of changes in financial position

The following tabulation shows the changes in financial position for the year ended 31 March 1980.

Funds provided by: (Note 1)

	(thousands of dollars)	
Cash surplus on current account:		
Surplus on current account per Public Accounts, Statement No. 3		41,606
Increase in bank overdraft — Bank of Montreal		1,641
Excess of suspense account receipts over payments		214
Issue of debentures — general borrowings	50,000	
— Canada Pension Plan	40,070	90,070
Temporary investments (net of redemptions)		
Term deposits		101,214
Waterford Valley Trunk Sewer and Mount Pearl By-Pass Loan		1,763
Quidi Vidi Trunk Sewer Loan		1,377
St. John's Urban Region Loan		290
Temperance Street Trunk Sewer Loan		114
Deferred revenue from Government of Canada re fishing vessels		1,000
Excess sinking funds on II bond issue returned to the Province		996
Redeposit of prior year's expenditure cheques		155
Big game licences — deferred revenue		232
		240,672

Funds used for:

	(thousands of dollars)	
Net expenditure on capital accounts:		
Net expenditure per Public Accounts, Statement No. 3		163,484
Treasury bill purchases (net of sales)		459
Demand loan repayments (net of receipts)		2,800
Debt redemption — debenture debt	28,582	
— C.M.H.C. loans	158	
— DREE loans	1,409	30,149
Sinking fund payments		27,609
Exchange losses		9,083
Amortization of unrealized foreign exchange losses		6,536
Big game licences — prior year's deferred revenue	377	
— prior year's deposits refundable to applicants	169	546
Close out of old bank accounts		2
Payments on old bond issues		1
Transfer of Local Purchase Account		3
		240,672

Note 1: Funds refer to Bank of Montreal, bank account.

Comparison of actual and estimated revenue, expenditure and related revenue

The summary below shows differences, in total, between actual and estimated amounts for the year and the number of departments and sources in which they occurred:

	Actual more than estimated		Actual less than estimated	
	No. of Sources	Amount (thousands of dollars)	No. of Sources	Amount (thousands of dollars)
Current account revenue	2	40,011	1	1,587
	No. of Depts.		No. of Depts.	
Expenditure:				
Current account	8	39,052	11	32,871
Capital account	3	33,037	13	27,390
Related Revenue:				
Current account	5	6,730	14	8,181
Capital account	3	2,824	10	13,289

Table 1 shows differences by source, and Tables 2 to 5 show differences by department.

TABLE I

Current Account Revenue

(thousands of dollars)

Source	Estimates	Actual	Increase (Decrease)
Goverment of Canada	494,208	500,561	6,353
Provincial Tax Sources	472,620	506,278	33,658
Other Provincial Sources	67,850	66,263	(1,587)
	1,034,678	1,073,102	38,424

Note

1. Actual revenue from Provincial Tax Sources is net of refunds of taxes totalling $899,525.

TABLE 2

Current Account Expenditure

(thousands of dollars)

Head	Department	Estimates	Actual	Increase (Decrease)
I	Consolidated Fund Services	200,760	204,457	3,697
	Supply Services:			
II	Legislative	5,247	5,489	242
III	Executive Council	5,281	4,851	(430)
IV	Finance	13,443	13,920	477
V	Labour and Manpower	6,057	5,622	(435)
VI	Education	313,064	317,974	4,910
VII	Justice	36,906	37,952	1,046
VIII	Social Services	86,058	111,229	25,171
IX	Consumer Affairs and Environment	3,100	2,787	(313)
X	Health	276,471	255,467	(21,004)
XI	Mines and Energy	37,880	34,386	(3,494)
XII	Forest Resources and Lands	18,541	15,172	(3,369)
XIII	Tourism, Recreation and Culture	20,485	19,204	(1,281)
XIV	Fisheries	10,288	10,019	(269)
XV	Industrial Development	7,937	7,733	(204)
XVI	Rural, Agricultural and Northern Development	18,827	18,632	(195)
XVII	Transportation and Communications	58,979	57,102	(1,877)
XVIII	Public Works and Services	14,692	15,906	1,214
XIX	Municipal Affairs and Housing	33,893	36,188	2,295
		967,149	969,633	2,484
		1,167,909	1,174,090	6,181

TABLE 3

Current Account Related Revenue

(thousands of dollars)

Head	Department	Estimates	Actual	Increase (Decrease)
I	Consolidated Fund Services	39,272	43,589	4,317
	Supply Services:			
II	Legislative	326	118	(208)
III	Executive Council	228	154	(74)
IV	Finance	353	164	(189)
V	Labour and Manpower	3,277	2,759	(518)
VI	Education	16,466	14,826	(1,640)
VII	Justice	1,622	1,716	94
VIII	Social Services	40,354	42,522	2,168
IX	Consumer Affairs and Environment	70	128	58
X	Health	12,518	12,429	(89)
XI	Mines and Energy	3,303	2,470	(833)
XII	Forest Resources and Lands	6,149	3,791	(2,358)
XIII	Tourism, Recreation and Culture	1,162	729	(433)
XIV	Fisheries	2,699	2,116	(583)
XV	Industrial Development	1,354	925	(429)
XVI	Rural, Agricultural and Northern Development	9,406	8,906	(500)
XVII	Transportation and Communications	3,135	2,871	(264)
XVIII	Public Works and Services	984	921	(63)
XIX	Municipal Affairs and Housing	1,368	1,461	93
		104,774	99,006	(5,768)
		144,046	142,595	(1,451)

TABLE 4

Capital Account Expenditure

(thousands of dollars)

Head	Department	Estimates	Actual	Increase (Decrease)
I	Consolidated Fund Services	1,370	1,168	(202)
	Supply Services:			
IV	Finance	5,825	28,073	22,248
VI	Education	27,438	25,983	(1,455)
VII	Justice	2,972	2,748	(224)
VIII	Social Services	120	74	(46)
IX	Consumer Affairs and Environment	2,012	45	(1,967)
X	Health	12,874	12,099	(775)
XI	Mines and Energy	6,275	6,732	457
XII	Forest Resources and Lands	3,079	2,258	(821)
XIII	Tourism, Recreation and Culture	10,749	6,483	(4,266)
XIV	Fisheries	20,178	30,510	10,332
XV	Industrial Development	12,964	12,864	(100)
XVI	Rural, Agricultural and Northern Development	8,348	6,942	(1,406)
XVII	Transportation and Communications	100,195	95,928	(4,267)
XVIII	Public Works and Services	5,698	4,119	(1,579)
XIX	Municipal Affairs and Housing	33,545	23,263	(10,282)
		252,272	258,121	5,849
		253,642	259,289	5,647

TABLE 5

Capital Account Related Revenue

(thousands of dollars)

Head	Department	Estimates	Actual	Increase (Decrease)
	Supply Services:			
IV	Finance	14,054	16,057	2,003
VI	Education	1,103	1,174	71
VIII	Social Services	60	—	(60)
X	Health	1,354	1,004	(350)
XI	Mines and Energy	247	119	(128)
XII	Forest Resources and Lands	2,798	2,025	(773)
XIII	Tourism, Recreation and Culture	6,140	2,992	(3,148)
XIV	Fisheries	3,205	3,194	(11)
XV	Industrial Development	11,974	11,799	(175)
XVI	Rural, Agricultural and Northern Development	6,228	4,472	(1,756)
XVII	Transportation and Communications	49,309	46,911	(2,398)
XVIII	Public Works and Services	132	882	750
XIX	Municipal Affairs and Housing	9,666	5,176	(4,490)
		106,270	95,805	(10,465)

Appropriations by the Legislature

Appropriations provided by the Legislature for the financial year 1979-80 including supplementary supply, totalled $1,266,498,000, as follows:

	(thousands of dollars)
The Interim Supply Act, 1979, enacted 30 March 1979	354,120
The Interim Supply Act (No. 2), 1979, enacted 30 July, 1979	225,060
The Supply Act, 1979, enacted 17 August 1979	634,388
The Supplementary Supply Act, 1980, enacted 6 June 1980	52,930
Total appropriations	1,266,498

Subsequent to enactment of The Supply Act of 1979, spending authority for amounts totalling $52,930,000 was provided by special warrants issued by the Lieutenant-Governor under the provisions of Section 28 of The Financial Administration Act, 1973. In all, eighteen special warrants were issued up to March 1980: fifteen under Section 28(2), and three under Section 28(3) of the Act. The Supplementary Supply Act, 1980 sanctioned the amounts provided by the special warrants.

Unexpended balances of appropriations

Of the $1,266,498,000 appropriations available in respect of expenditure for the year ended 31 March 1980, $44,484,000 remained unexpended.

In compliance with Section 24 of The Financial Administration Act, 1973, balances comprising this amount lapsed and were written off.

The lapsed balances are tabulated below by department.

Head	**Department**	**Current Account**	**Capital Account**	**Total**
		(thousands of dollars)		
I	Consolidated Fund Services	178	—	178
II	Legislative	138	—	138
III	Executive Council	523	—	523
IV	Finance	293	28	321
V	Labour and Manpower	469	—	469
VI	Education	135	532	667
VII	Justice	598	372	970
VIII	Social Services	1,148	1	1,149
IX	Consumer Affairs and Environment	367	1,967	2,334
X	Health	668	203	871
XI	Mines and Energy	3,730	2,143	5,873
XII	Forest Resources and Lands	2,872	821	3,693
XIII	Tourism, Recreation and Culture	770	4,234	5,004
XIV	Fisheries	115	2,062	2,177
XV	Industrial Development	388	100	488
XVI	Rural, Agricultural and Northern Development	1,195	1,535	2,730
XVII	Transportation and Communications	2,852	4,178	7,030
XVIII	Public Works and Services	(998)	2,842	1,844
XIX	Municipal Affairs and Housing	(2,257)	10,282	8,025
		13,184	31,300	44,484

Number/
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PROVINCE OF NEWFOUNDLAND

REPORT OF THE AUDITOR GENERAL
TO THE HOUSE OF ASSEMBLY
for the
FINANCIAL YEAR ENDED
31 MARCH 1981

PRINTED UNDER THE AUTHORITY OF THE HOUSE OF ASSEMBLY

ST. JOHN'S, NEWFOUNDLAND

GOVERNMENT OF NEWFOUNDLAND AND LABRADOR
DEPARTMENT OF THE AUDITOR GENERAL

March, 1982

The Honourable J.F. Collins, F.R.C.P.(E.),

Minister of Finance.

Sir:

In compliance with The Financial Administration Act, 1973, I have the honour to submit herewith, for transmission to the House of Assembly, the Public Accounts of the Province of Newfoundland for the financial year ended 31 March 1981 accompanied by my Report thereon.

Respectfully submitted,

J.F. McGrath, C.A.,
Auditor General.

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REPORT OF THE AUDITOR GENERAL

INTRODUCTION

In compliance with the requirements of Sections 62 and 67 of The Financial Administration Act (Statutes of Newfoundland, 1973, No. 86), I submit my Report to the House of Assembly on the results of my examination and audit of the accounts and financial statements of the Province of Newfoundland for the financial year ended 31 March 1981.

The Public Accounts

2. Section 55 of The Financial Administration Act, 1973 reads:

"55. — (1) The Comptroller General shall as soon as possible after the end of each fiscal year prepare a report, to be called the Public Accounts, and shall submit it for audit by the Auditor General and onward transmission to the Minister for submission to the House of Assembly.

(2) The Public Accounts shall show in respect of the fiscal year to which they relate

(a) the state of the public debt;

(b) the revenue and expenditure;

(c) all compromises, remissions, refunds and amounts written off; and

(d) such other accounts and statements as may under good accounting practice be required to show the financial position of the province at the end of the fiscal year."

Financial Statements of the Province for 1980-81

3. The financial statements of the Province, submitted for audit by the Comptroller General of Finance in compliance with Section 55(1) of The Financial Administration Act, 1973, are listed in the Table of Contents of the volume of Public Accounts for 1980-81 under the following captions:

Statement of Assets and Liabilities

Consolidated Revenue Fund — Statement of Receipts and Payments

Revenue, Expenditure and Related Revenue

AUDITOR GENERAL'S OPINION

Accounts examined

4. In addition to my examination, from time to time, of the various accounts of the several departments, I have examined the accounts of the Province and the financial statements with respect to these accounts which have been prepared under the direction of the Comptroller General, and to which I have referred in paragraph 3. I have received all the information and explanations I have required.

Scope of examination

5. My examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as I considered necessary in the circumstances.

Departmental accounts for the year ended 31 March 1981 were examined and tested to comply with the requirements of The Financial Administration Act, 1973:

(i) Current Account Revenue and Related Revenue accounts were examined to comply with Section 61 of the Act, which reads: "The Auditor General shall satisfy himself that all public money is being fully accounted for and shall examine at his discretion the accounts of all persons charged with the collection and management of public money."

(ii) Expenditure accounts were examined to comply with Section 60(1) of the Act, which reads: "The Auditor General shall examine periodically the accounts of all departments and shall take such further steps as he may deem necessary to satisfy himself that the accounts are faithfully and properly kept and that money expended has been applied, subject to this Act, to the purposes for which it was appropriated."

(iii) The accounts of the province and the related financial statements were examined and audited to comply with the requirements of Section 62(1) of the Act, which reads: "The Auditor General shall, besides examining from time to time the various accounts of the several departments as provided for by this Act, examine and audit the accounts of the province for each fiscal year and for that purpose statements with respect to such accounts shall be prepared by such persons as the Comptroller General may direct."

The statements referred to in Section 62(1) of the Act are listed in Section 62(2) of the Act, as follows:

(a) accounts of all receipts forming the Consolidated Revenue Fund;

(b) accounts of all expenditures made from the Consolidated Revenue Fund;

(c) accounts current with the several banks and fiscal agents of the province;

(d) accounts relating to the raising or redemption of loans;

(e) accounts relating to sinking funds;

(f) accounts with other governments;

(g) accounts held in trust for others; and

(h) all other public accounts.

Opinion

6. In accordance with the requirements of Section 62(3) of The Financial Administration Act, 1973, I report as follows on the results of my examination and audit of the accounts and financial statements of the province for the year ended 31 March 1981.

In my opinion,

(a) proper books of account have been kept by the province;

(b) the financial statements of the province

(i) were prepared on a basis consistent with that of the preceding year, except for one exception to the accounting policies as referred to in Note 1(i) of the Notes to the Financial Statements and described in greater detail in a note to the Statement of Expenditure and Related Revenue of the Department of Education, and are in agreement with the books of account,

(ii) in the case of the balance sheet, present fairly the state of the affairs of the province as at the end of the fiscal year,

(iii) in the case of the statement of revenues and expenditures, present fairly the revenues and expenditures of the province for the fiscal year, and

(iv) in the case of the Consolidated Revenue Fund, the statement of receipts and payments present fairly the receipts and payments of the Consolidated Revenue Fund for the fiscal year.

GENERAL MATTERS

7. **Foreword.** This is my first Report to the House of Assembly as the Auditor General of Newfoundland and it is submitted in accordance with the provisions of The Financial Administration Act, 1973. It describes the background of my position, presents the required audit opinion on the financial statements of the Province and includes detailed comments as I deemed necessary on these financial statements. It also includes other comments and financial information which I consider should be reported to the Legislature.

8. **Financial Statements.** Financial statements are prepared for the purpose of providing summarized information as to the financial position of an organization at a given point in time, and the results of its financial activities over a specified period. The Public Accounts are the medium by which this information is provided for the Province of Newfoundland.

The magnitude of financial operations summarized in the Public Accounts, and the special nature of the accountability of governments to the people they represent, impose a great responsibility on those concerned with the proper maintenance of the records on which they are based and the presentation of the results in the most accurate and clearly understandable form possible. This responsibility rests with the Comptroller General of Finance, who is the chief accounting officer of the Government. Responsibility for the accounts and financial statements of public bodies rests with the management of those bodies. Representations in the financial statements of the Government and of the public bodies are therefore those of the Government and of the managements of the public bodies.

9. **Function of the Auditor General.** Governments have long felt the need to appoint an officer independent of the government of the day and of public officials and employees, to carry out an examination of the public accounts, and report directly to the elected legislative entity. The practice is international, and Canada has had an Audit Office since 1878. All of the provinces have, over the years, established such offices. I was appointed as Newfoundland's eighth Auditor General on 13 May 1981. I am an officer of the Legislature, appointed by the Lieutenant-Governor of the Province of Newfoundland. I am independent of the Government, and report to the House of Assembly.

One of the primary functions of an auditor is to report on the representations made by management in the financial statements. Such financial statements are a report by management of its stewardship. In the case of a provincial government, the management is the government of the day. The financial statements are embodied in the Public Accounts submitted to the House of Assembly.

To carry out this function, the auditor examines such audit evidence as is deemed appropriate and is available. The examination is conducted in accordance with professionally established generally accepted auditing standards. The Canadian Institute of Chartered Accountants pronounces upon these standards. On the basis of the evidence examined, the auditor endeavours to arrive at an opinion as to the credibility of management's representations, and as to the degree of their compliance with established accounting principles. In most activities other than those of governments, these are known as "generally accepted accounting principles." Because generally accepted accounting principles have not been established for governments, it is usual to report on the degree of compliance with stated accounting policies.

Under early legislation of other government jurisdictions, it was usual to restrict the duties required of legislative auditors to those described in the previous paragraph. More recently it has become accepted that they may, or are required to, extend their audit functions beyond those traditionally required for the expression of an opinion, in order to provide additional information for the improvement of financial management. The concept has also evolved that legislative auditors may or should extend the scope of their work to include assessments of the degree to which programs are economically and efficiently administered and the appropriateness of the basis of accounting for fair presentation in the Public Accounts. These extended duties will I hope be given to me under a new Auditor General Act.

10. **Staffing.** My Department continues, with fair results, its efforts to recruit and retain qualified staff. As indicated in prior years' reports my office endeavours to encourage and assist new staff to plan and follow a career in accounting and auditing. Vacancies occur frequently, because, with their training and experience, members of my staff can readily qualify for other positions in the public service or elsewhere.

I am pleased to report that in 1981 six of my staff qualified as Chartered Accountants. I note that this number represents over 25% of the 1981 graduates in the Province of Newfoundland. One other member of my staff qualified as a Registered Industrial Accountant during the year. I congratulate these and also other members of my staff who are progressing in their courses towards a recognized accounting degree.

11. **Development of a Computer Audit Capability.** I am pleased to report that significant progress is being made in developing a Computer Audit Capability within my Department. Two of my staff have undergone a lengthy period of training at Newfoundland and Labrador Computer Services Limited in computer programming. One of these has taken in-depth computer audit courses.

In addition, during the past year, my staff, with assistance from my consultants, Touche Ross and Co., have completed two audits using computer assisted audit techniques.

Recently my Department has acquired a computer terminal and also a computer audit software package called "EDP Auditor." My staff are now being trained in the use of these.

I intend that all audit staff will be given some training in EDP auditing. Two have been and will continue to be trained in depth in this area. These two will become involved in systems development reviews and will provide assistance to my other auditors in audits of complex computer systems.

I note that Newfoundland and Labrador Computer Services Limited has been and continues to be of great assistance to me in this area.

12. **Guide on Financial Administration.** I am pleased to report that further progress has been made by Treasury Board and Department of Finance officials on the Guide on Financial Administration for the Province. In September 1980 six completed chapters of Government of Newfoundland and Labrador Management Manual, Volume I, Financial Policy and Procedures, were issued by the Treasury Board to Government Departments. In November 1981 a further chapter was issued.

13. **Canadian Comprehensive Auditing Foundation.** The Canadian Comprehensive Auditing Foundation is now two years old, having been incorporated on 28 February 1980. Although the main objective of the Foundation was noted in the 1980 Report of the Auditor General, I feel that it is of such importance that I am repeating it again in this Report.

"The main objective of the Foundation is to serve as a focal point for collecting and communicating comprehensive auditing knowledge and experience. This in turn will promote the adoption of systems to ensure the efficient use of resources. To meet this objective the Foundation will

- foster the development of methodology;
- organize professional development and training programs;
- arrange for conferences and publications to promote the exchange of information and views; and
- provide professional development opportunities for auditors from developing nations." (Comprehensive Auditing — A New Approach To Public Sector Accountability In Canada. A paper by J.J. Macdonell, F.C.A., F.M.C., Auditor General of Canada and Chairman, Canadian Comprehensive Auditing Foundation — May 1980).

In September 1981 the Foundation released its first major report, "Improving Accountability — Canadian Public Accounts Committees And Legislative Auditors." The recommendations of this report are extremely significant, and for this reason I have included all 69 in Appendix III to my Report.

The second annual conference of the Foundation was held in Toronto in September 1981. Since the Department of the Auditor General of Newfoundland is a sustaining member, I attended this conference. Among the many topics discussed, "Comprehensive Auditing" received a great deal of attention. Comprehensive Auditing is a new type of auditing designed to review and report on the management of financial, human and physical resources, so as to provide the greatest possible degree of accountability in the expenditure of public funds. It includes assessing the adequacy of management systems and controls to ensure due regard to economy, efficiency and effectiveness. I am pleased to report that I have now appointed one of my senior officials to co-ordinate the activities of my Department in Comprehensive Auditing. I look forward to this broadened audit function, which should be possible and provided for under the provisions of a new and separate Auditor General Act for the Province when one is enacted.

14. **Canadian Conference of Legislative Auditors.** The ninth annual meeting of the Canadian Legislative Auditors was held in St. Andrews, New Brunswick on 6-8 July 1981. Representatives of all legislative audit offices, both provincial and federal, attended. The meeting, which serves as a useful forum for the sharing of ideas and information, was attended by three members of this Department.

Guest speakers included the Honourable Richard B. Hatfield, Premier of New Brunswick; Bruce McDonald of William Mercer Limited; James J. Macdonell, Chairman, Canadian Comprehensive Auditing Foundation; and H.G. Rogers, Comptroller General of Canada.

Representatives of the Public Accounts Committees from the Provinces and Canada held their third annual meeting during the same period in St. Andrews. Included in their agenda was a combined meeting with the legislative auditors, at which time the research report, Improving Accountability — Canadian Public Accounts Committees and Legislative Auditors, prepared by the Canadian Comprehensive Auditing Foundation, was discussed.

The 1982 meeting will be held in British Columbia and it is anticipated that there will be another session with representatives of the Public Accounts Committees.

15. **Public Accounts Committee.** The Public Accounts Committee has been appointed under Standing Order 84(a) (d) of the standing orders of the House of Assembly of Newfoundland to enquire into the Public Accounts of the Province and the Report of the Auditor General on these accounts.

During the past year to 31 January 1982 the Committee concluded its deliberations on the Public Accounts and the Report of the Auditor General for the financial year ended 31 March 1979, and tabled its related report in the House of Assembly on 4 May 1981. On 2 June 1981 the Committee began its meetings to consider the Public Accounts and the Report of the Auditor General for the financial year ended 31 March 1980. It has held a number of meetings since then and I have attended these meetings to be of all possible service to the Committee in its deliberations.

I note that I continue to provide a member of my staff to the Committee as its research officer.

16. **Corner Brook Office.** As Auditor General of Newfoundland I am responsible for auditing government entities which are located throughout the Province. During 1981 I opened the first branch office of the Department of the Auditor General in the City of Corner Brook. This office is presently staffed by a Chartered Accountant and one assistant auditor. It is expected that through this office I will be more effectively able to carry out my responsibilities in the west coast area of the Province.

Also, in the future, I hope to be able to open similar offices in central Newfoundland and Labrador, so that I may better serve these areas of the Province.

17. **Crown corporation and other audits.** In addition to auditing the Public Accounts of the Province of Newfoundland, the Auditor General is responsible for numerous other audits. These include the audits of Crown Corporations, Boards, Authorities and Sundry Funds administered by the Province, the City of St. John's, and certain School Tax Authorities and Municipalities. These additional audits are listed in Appendix II of my Report. These audits are assigned to the Other Accounts Branch of my Department to be performed on a current basis by the staff of about thirty assigned by me to that Branch.

18. **Auditor General's Advisory Council.** In addressing certain areas of work in my Department, I decided it would be wise and prudent to seek out the advice and ideas of my professional accounting colleagues in the private sector. In order to do this, I approached four Chartered Accountants and asked if they would be willing to serve on an Auditor General's Advisory Council. They have all agreed to do so.

These Chartered Accountants are:

Ted Hunter, F.C.A.

Ruben Rosen, F.C.A.

Bernard Hogan, C.A.

Wayne Trask, C.A.

I look forward to working with this newly-formed Advisory Council in the coming year.

COMMENTS ON ASSETS AND LIABILITIES

Consolidated Fund Services

19. **Sinking fund moneys used to make loans to the Province.** One of the methods used by the Province to borrow money is through the issue and sale of debentures. The terms of these debentures usually include a provision for the establishment by the Province of a sinking fund, to which stipulated sums are paid annually by the Province, and which, together with interest earned thereon, is held for the purpose of retiring the debt at maturity relating to the moneys borrowed.

For the more convenient administration of the sinking funds established by the Province, all of the sinking funds have been consolidated into one sinking fund, known as the Consolidated Sinking Fund. This fund, established by Section 37A of The Financial Administration Act, 1973, is for the purpose of retiring the public debt of the Province at maturity.

The Consolidated Sinking Fund is administered by a Board of Trustees appointed by the Lieutenant-Governor in Council, under the authority of The Financial Administration Act, 1973. The Board of Trustees appointed in May 1980, was made up of the Comptroller and Deputy Minister of Finance, as Chairman, two senior employees of the Department of Finance and two senior employees of the Treasury Board, as trustees.

My audit of the accounts of the fund for the year ended 31 March 1981, disclosed that the Trustees agreed to lend to the Province $3 million and $2 million, with interest payable at the rate of 11.25 percent, per annum. These loans were advanced to the Province from the Consolidated Sinking Fund on 15 July 1980. As evidence of its borrowings, the Province issued to the fund two separate debentures signed by the Minister of Finance and countersigned for the Deputy Minister of Finance by an Assistant Deputy Minister of Finance, who was also a trustee of the Consolidated Sinking Fund.

My audit also disclosed that subsequent to 31 March 1981, the Province borrowed on four separate occasions, from the Consolidated Sinking Fund, short-term loans totalling $8,659,375. As evidence of these borrowings the Province issued notes to the sinking fund signed by the Minister of Finance and the Deputy Minister of Finance, who is also Chairman of the Board of Trustees of the Consolidated Sinking Fund.

The investment of sinking fund moneys is provided for in Section 37(3) of The Financial Administration Act, 1973, which states, in part, "Moneys in a sinking fund created with respect to any securities may be invested in bonds, debentures or any other securities whatsoever (a) of the Government of Canada or of any of the provinces of Canada." Although, in my opinion, this provision of the Act permits the Board of Trustees for the Consolidated Sinking Fund to invest moneys in securities of the Province, I have to express two concerns about such transactions. These are:

(i) When the Trustees of the Consolidated Sinking Fund use sinking fund moneys to purchase issued and outstanding debentures of the Province on the market, it effectively reduces the total amount of debenture debt which the Province will have to redeem when the debentures mature. This is in accordance with the expressed purpose of the Consolidated Sinking Fund, as set out in Section 37A of The Financial Administration Act, 1973, (i.e. for the purpose of retiring the public debt of the Province at maturity). However, when the Trustees use sinking fund moneys to make loans directly to the Province, it does not effectively reduce or provide for the retiring of the public debt at maturity. Hence, it does not fulfill the purpose for which the sinking fund was established.

(ii) All of the trustees of the Consolidated Sinking Fund are also senior employees of the provincial government. As trustees of the sinking fund, they have responsibilities relative to the management, operation and control of the fund which includes authority over the investing of sinking fund moneys. As employees of the provincial government, a majority of the trustees have responsibilities relative to the management of the Province's debt, including the borrowing of moneys for the Province. The dual roles, in which these employees are required to act, could lead to a possible conflict of interest if they are required to decide upon the lending of sinking fund moneys to the Province.

In relation to these concerns, I therefore recommend that moneys belonging to the Consolidated Sinking Fund not be used to provide loans to the Province, but that they be restricted and used solely for the purpose of providing for the retirement of the public debt of the Province at maturity, as expressed in Section 37A of The Financial Administration Act, 1973.

Department of Finance

20. **Weaknesses in the system of internal control over the Province's main bank accounts.** The Newfoundland Exchequer Account is the Province's main bank account into which all revenues of the Province are deposited and from which periodic withdrawals are made to cover expenditures of the Province. The withdrawals from the Newfoundland Exchequer Account are effected by transfers of funds to other government disbursement bank accounts to cover cheques drawn on these accounts. The Exchequer Office Section was established in the Government Accounting Division, Department of Finance, to deal with the control and issuance of cheques drawn on government disbursement bank accounts and to be responsible for the reconciling of the relevant bank accounts.

My audit of the Newfoundland Exchequer Account, for the year ended 31 March 1981, included a review of the internal control procedures relating to that account as well as to the other disbursement bank accounts maintained by the Exchequer Office Section, Department of Finance. This review disclosed that certain internal control weaknesses existed within the system. These weaknesses may be summarized as follows:

(i) While written procedures existed which provided for the control and issuance of cheques, and the reconciling of the bank accounts, these procedures were not always followed. For example, the Newfoundland Exchequer Account and the several disbursement bank accounts maintained in the Exchequer Ledger were not written up for lengthy periods, sometimes as long as twelve months. Similarly, the bank reconciliations which are required to be prepared monthly were several months in arrears, and, in the case of the Newfoundland Exchequer Account, were up to twelve months in arrears.

(ii) In some instances inadequate segregation of staff activities allowed certain staff members to be performing incompatible tasks. For example, the same employee who maintained the records to control the use of the blank cheque forms also had unrestricted access to the blank cheque forms, the cheque signing equipment and the signature plates.

(iii) Access to the Exchequer Office Section, as well as access to blank cheque forms and cheque signing equipment, was not adequately restricted to prevent the use of such forms or equipment by unauthorized persons.

The details of my concerns have been communicated to the Comptroller General of Finance by letter, in which I made various recommendations. If these recommendations are implemented they should improve the system of internal control relating to the Newfoundland Exchequer Account and the several government disbursement bank accounts, which are the responsibility of the Exchequer Office Section, Department of Finance.

From my review and evaluation of the system of internal control within the Exchequer Office Section, I conclude that:

(i) The manner in which the accounts were kept during 1980-81, indicates a lack of adequate direction and supervision by the responsible officials over the Newfoundland Exchequer Account and related disbursement bank accounts.

(ii) The failure to maintain certain basic financial controls over the banking transactions makes it possible for the issue and concealment of unauthorized disbursements of public funds.

The withdrawal of funds from the Newfoundland Exchequer Account and the disbursement of these funds through the disbursement bank accounts is done under the control of the Exchequer Office Section, Department of Finance. It is, therefore, imperative that the Department take immediate action to ensure that its system and procedures contain all the administrative and financial controls necessary to provide maximum protection of public funds. Any identified internal control weaknesses should be corrected without delay.

21. **Weaknesses in procedures for the recovery of debts due to the Government.** Section 31(1) of The Financial Administration Act, 1973, empowers the Comptroller General of Finance to take such steps as appear to him to be necessary to effect the recovery of debts due to the Government. In situations where a payment is about to be made to a claimant, who is also a debtor of the Government, the Comptroller General of Finance may apply all or part of the payment in question towards the liquidation of the claimant's indebtedness.

In previous reports to the House of Assembly, the Auditor General has made known his concern over the inability of collection procedures followed by the Department of Finance to obtain favourable collection results. I note, for example, that as of 31 March 1981, approximately $13 million were due to the Province for Retail Sales Tax. My audit for 1980-81, disclosed that the authority given to the Comptroller General of Finance under Section 31(1) of The Financial Administration Act, 1973, to recover debts due to the Government, was not fully exercised by him because the procedures followed were weak.

The procedures for the recovery of debts are based upon an arrears list maintained by the Exchequer Office Section, Department of Finance. This arrears list includes, mainly, the names, supplied by various Departments, of individuals and companies who have become indebted to the Province. When the Department of Finance prepares a cheque for payment to a debtor whose name appears on the arrears list, the applicable Department is contacted and requested to advise the Department of Finance whether or not to recover the amount owed from the payment due to the debtor.

In my opinion, the procedures are weak in that the Comptroller General of Finance does not decide whether a recovery will or will not be made; rather, the officials of the line departments decide this for him by merely placing a tick mark on a prescribed form. This determines the action that the Comptroller General of Finance will take in such cases. Furthermore, line department officials who decide that recoveries should not be made are not required to give any reason for their decisions.

I further note that the debtors' arrears list compiled by the Department of Finance also includes names of companies who do business with the Province but are not actual debtors. These companies may become debtors at some future date. The usefulness of including these names on the arrears list is questionable, since it adds to the workload in recovering from actual debtors because more names have to be reviewed prior to the release of each cheque issue.

I conclude, therefore, that the procedures for the recovery of debts under Section 31(1) of The Financial Administration Act, 1973, are weak. Furthermore, the procedures do not adequately provide for the Comptroller General of Finance to discharge his responsibilities under Section 31(1) of the Act.

22. **Provision for loss on investments.** The Statement of Assets and Liabilities as at 31 March 1981, included in the Public Accounts, shows Investments at cost, $57,304,000, less a provision for loss on investments, $2,096,000. A detailed list of investments comprising the total shown in the Statement of Assets and Liabilities is shown in Schedule D, entitled Investments.

The Statement of Assets and Liabilities includes a provision of $2,096,000 for loss on investments in several corporations. However, no provision has been made for any potential losses resulting from investments in certain other corporations. For example, the Schedule of Investments shows the total value of all shares held by the Province in Marystown Shipyards Limited to be $16,187,881, as at 31 March 1981, of which $8,000,000 was paid (invested) in 1980-81 for the purpose of contributing towards losses in that corporation.

I note from the audited financial statements of Marystown Shipyards Limited, as at 28 March 1981, that the Shareholders' Equity was reported to be $2,159,431. This is $14,028,450 less than the carrying value by the Province of its investments in that corporation. (The Province owned 69% of the issued shares of the corporation.) It is apparent therefore, that the value of the Province's investment in Marystown Shipyards Limited was substantially less than the value of the shares reported in the Schedule of Investments as at 31 March 1981. However, the provision for loss on investments does not include any amount relative to shares owned by the Province in Marystown Shipyards Limited.

In my opinion, the provision for loss on investments should have been increased to adequately provide for all potential losses to the Province arising from its investments.

23. **Weakness in the system for recording and reporting guarantees issued by the Province.** The Province has issued many guarantees relating to the debts of Crown corporations, municipalities, public companies, and other bodies. These guarantees, which totalled $919,036,000 as at 31 March 1981, are reported as Contingent Liabilities in the Statement of Assets and Liabilities contained in the Public Accounts of the Province.

The present system, maintained by the Department of Finance, for recording and reporting guarantees issued, does not provide for keeping a permanent record, such as a Register, to record the relevant data respecting guarantees which have been issued by the Province. The absence of such a record makes it very difficult for officials of the Department of Finance, as well as my auditors, to ensure that all guarantees issued by the Province are, in fact, reported in the Public Accounts of the Province. For example, my audit disclosed that the Statement of Contingent Liabilities prepared by the Department of Finance and submitted for audit did not include guaranteed debentures totalling $35,000,000. These were subsequently added to the Statement and are included in the 1980-81 Public Accounts.

In my opinion, the absence of a permanent record, such as a Register, to record pertinent information on guarantees issued, constitutes a weakness in the system for the recording and reporting of guarantees issued by the Province.

24. **Overstatement of $19,425,537 in net debenture and other debt.** The Statement of Assets and Liabilities of the Province, as at 31 March 1981, shows debenture and other debt totalling $2,021,364,000, less sinking fund assets of $313,899,000, to arrive at net debenture and other debt of $1,707,465,000.

The sinking fund assets, which are deducted from the outstanding debt, include debentures of the Province that have a par value of $250,347,500. However, these debentures are included in the sinking fund assets at a value of only $230,921,963. This amount reflects the cost to the sinking fund of purchasing these debentures, plus the amortized discounts on purchases, up to 31 March 1981.

Since the Province's debentures purchased and held in the sinking fund, as investments, represent debt obligations of the Province that will be cancelled at maturity at par value, the total of these investments should, in my opinion, be shown at par and be deducted from the debenture debt to arrive at the net debenture debt.

In my opinion, the present accounting practice of deducting the sinking fund assets at cost plus amortized bond discount results in an overstatement of $19,425,537 for net debenture and other debt, as at 31 March 1981.

Department of Education

25. **Accounts receivable, pupil-teacher loans.** As at 31 March 1981, the Statement of Assets of the Department of Education included an amount of $712,812 for accounts receivable, pupil-teacher loans. In his last four Reports to the House of Assembly, the Auditor General disclosed that a number of deficiencies existed in the recording and collection of these accounts.

As reported in paragraph 14 of the Auditor General's 1979-80 Report, the Department of Education, in November 1980, finally took the initiative to try and contact the approximately 1,700 individuals involved. Preliminary results of this survey, compiled in February 1981, disclosed that:

(i) Some individuals acknowledged that they owed the balances outstanding and indicated a willingness to make payment.

(ii) Some individuals indicated that they had entered into a contract of service or services relating to teaching and have been in such service for a period sufficient to absolve them of their debt.

(iii) Some individuals indicated that they had met the conditions of their indenture by having made all reasonable endeavours to obtain employment in an educational institution receiving aid from the Government of Newfoundland; therefore, it was their belief that no debt was outstanding.

(iv) A large number of questionnaires were returned because of incorrect addresses. The Department does not have correct addresses for most of these.

(v) No replies were received from the majority of individuals.

As noted in previous Auditor General's Reports, I have been advised by the Department that due to the ambiguous terms of the pupil-teacher indentures signed before 1972, the collection of the outstanding amounts, totalling $651,993, relating to these indentures is very doubtful. I note that the Department has provided an allowance of $600,000 for doubtful accounts, which represents 92% of the outstanding pupil-teacher indentures entered into before 1972.

In my opinion, the Department has had ample opportunity since the first report on this matter (31 March 1977) to have the situation resolved. In fact, I believe it also has had ample opportunity, since February 1981, to have the final results of its survey (which was started in November 1980) finalized and a decision made as to what action it intends to take concerning these receivable accounts.

26. **Accounts receivable, student aid overpayments.** The Student Aid Division of the Department of Education is responsible for the administration, in the Province, of the Canada Student Loans Program and the Newfoundland Student Aid Program. These programs were designed to provide opportunities for students, who lack adequate financial resources, to pursue post-secondary education.

If a student receives assistance from the Newfoundland Student Aid Program and subsequently reports to Memorial University of Newfoundland a change from full-time status to part-time status, or reports withdrawing during the semester, he is required to refund that portion of the provincial student aid awarded for the semester applicable to the period after changing status.

As at 31 March 1981, the Statement of Assets of the Department of Education included an amount of $85,580 as accounts receivable from students who had received assistance from the Province under the Student Aid Program, but who later changed their status at Memorial University, and are, therefore, required to pay back a portion or all of the funds paid to them. My audit of these accounts receivable revealed the following:

(i) Little effort was made to collect the outstanding amounts. Notification of amounts due were not sent to students on a frequent basis.

(ii) An aged trial balance of accounts was not prepared for 31 March 1981.

(iii) An allowance for doubtful accounts was not reported to the Department of Finance for inclusion in the Public Accounts of the Province, although correspondence in the Department of Education indicated that $71,925 of the $85,580 was considered to be uncollectible by the Department.

(iv) The receivables of $85,580 included on the assets statement of the Department of Education did not include other known receivables totalling $34,913.

Audit procedures undertaken to verify the accuracy of the reported receivables included an attempt to confirm directly with thirty-one of the debtors the amounts reported by the Department as receivable. The results of this procedure were;

(i) Seven confirmations were returned because of incorrect addresses. The Department was unable to provide correct addresses.

(ii) No response was received from fifteen confirmations even after second requests were sent.

(iii) Nine individuals responded to the confirmations and acknowledged that they did owe the amounts recorded by the Department. The audit disclosed that six of these confirmed accounts were considered inactive by the Department and were included in a submission to the Secretary of Treasury Board requesting they either be written off or referred to a Collection Agency.

In my opinion:

(i) The Department should ensure that all accounts receivable are identified and reported to the Department of Finance for inclusion in the Public Accounts of the Province.

(ii) **The Department should have performed a review of the accounts receivable and determined an adequate allowance for doubtful accounts, which should also have been reported to the Department of Finance for inclusion in the Public Accounts of the Province.**

(iii) **Prompt action should be taken to collect these outstanding accounts.**

(iv) **Statements of account should be sent periodically to all debtors.**

(v) **An aged trial balance should be prepared, at least annually.**

27. **Province's liability of $109,891,698, for debt of the Denominational Education Committees, not properly disclosed in the Public Accounts.** Under authority of a Minute of Council dated 19 June 1980, the Province agreed with two banks that certain amounts borrowed from these banks by the Denominational Education Committees would be repaid by the Province through the Committees, within 5 years, or refinanced under mutually acceptable terms. The amount outstanding on these loans at 31 March 1981 was $99,584,082.

Previously, in a letter dated 31 January 1980, the Province had informed one of these banks that the Province would provide funds to repay certain loans from that bank to the Denominational Education Committees within 5 years of drawdown. The amount outstanding on these loans at 31 March 1981 was $10,307,616.

The Province's liability to repay the above-mentioned loans, totalling $109,891,698, is not properly disclosed in the Public Accounts of the Province. It is disclosed in a note to the Schedule of Contingent Liabilities.

In my opinion, this amount should be included in the Schedule of Current and Long Term Liabilities of the Province as at 31 March 1981.

Department of Tourism, Recreation and Culture

28. **Undisclosed outstanding commitments under the Community Sports Facilities, Recreation Capital Grants Program.** The Department of Tourism, Recreation and Culture administers the Community Sports Facilities, Recreation Capital Grants Program which provides grants to various incorporated communities, rural areas and other groups to assist with the construction of sports facilities, the purchase of equipment and for other items. These grants are normally payable to qualifying groups in five equal annual instalments.

My audit disclosed that grants which had been committed prior to 31 March 1981, to be paid out during the next five years, totalled $4,152,997. However, the Province's financial obligation relating to these outstanding commitments has not been disclosed in the Public Accounts of the Province for the year ended 31 March 1981.

I note that Section 26.1 of The Financial Administration Act, 1973, states:

"(1) **Each Deputy Minister or other officer charged with the administration of a Head of Expenditure shall notify the Comptroller General of any commitment chargeable against that Head of Expenditure.**

(2) A Deputy Minister or other officer charged with the administration of a Head of Expenditure shall not enter into a commitment unless an appropriation exists or is in a sufficient amount to meet the commitment."

As far as I am able to ascertain, the provisions of Section 26.1 of the Act, quoted above, were not complied with for those commitments given by the Department of Tourism, Recreation and Culture, under the Community Sports Facilities, Recreation Capital Grants Program. In my opinion, these commitments should have been reported in the Public Accounts of the Province for the year ended 31 March 1981.

Department of Public Works and Services

29. **Failure to reply to management letter.** On 17 March 1981, the Auditor General wrote the Department of Public Works and Services concerning matters which arose from the audit of the assets and liabilities of that Department for the 1979-80 financial year. The Department was asked to respond to the letter, indicating what action would be taken to remedy the deficiences identified (as a result of audit) and to improve accounting and reporting procedures.

On 24 September 1981, a follow-up letter was sent to the Department, since at that time a reply or an acknowledgement to the original letter of 17 March 1981 had not been received. As of 10 November 1981, there has been no response to the original letter.

Letters from the Auditor General to Department Heads (i.e. Management Letters) are intended to assist Departments to identify and correct internal control weaknesses and to develop better accounting and reporting standards. I believe that the Department of Public Works and Services should have responded to the letter of 17 March 1981, and should, in future, respond to such letters on a timely basis.

Department of Municipal Affairs and Housing

30. **Unreported liability for General Municipal Assistance Grant to the City of St. John's.** Section 3 of The Municipal Grants Act, provides that each municipality will be paid annually a General Municipal Assistance Grant, as prescribed by regulation. The Municipal Grants Act Regulations, 1980 prescribe the annual General Municipal Assistance Grants that shall be paid to municipalities under the provisions of the Act.

These regulations specify the three components comprising the General Municipal Assistance Grants to be paid to municipalities. The General Municipal Assistance Grant for 1980 for the City of St. John's was calculated by the Department of Municipal Affairs and Housing as follows:

Basic Allocation	$1,692,148
Social Assistance Supplement	415,565
Local Road Mileage Supplement	518,800
	$2,626,513

During 1980-81, $2,000,000 of this amount was paid to the City of St. John's and charged to current account expenditure, Subdivision 1903.03.09, Local Government Administration: Operating Grants: General Municipal Assistance. The balance of $626,515, was not paid during the fiscal year 1980-81; neither was it set up as a liability in the accounts of the Province as at 31 March 1981. I further note that at the date of writing this report paragraph (October, 1981), the amount had not been paid to the City.

COMMENTS ON CURRENT ACCOUNT REVENUE

31. **General comments.** The Summary of Revenue, Expenditure and Related Revenue by Department, Statement No. 3 of the Public Accounts, shows total current account revenue at $1,226,167,000. Details concerning the amounts which are classified as current account revenue appear in Statement No. 5 of the Public Accounts and the notes thereto.

In summary, the total comprises:

Payments received from the Government of Canada —		
Subhead 490	Government of Canada	$ 565,872,000
Subhead 491.15	Reciprocal tax agreement	8,731,000
		574,603,000
Provincial income taxes collected and remitted by the Government of Canada —		
Subhead 491.09	Personal income tax	184,173,000
Subhead 491.12	Corporate income tax	44,148,000
		228,321,000
Revenue received through the Newfoundland Liquor Corporation and the Newfoundland Liquor Licensing Board		46,522,000
Retail Sales Tax		238,392,000
Gasoline Tax		44,471,000
Mining Tax and Royalties		27,093,000
Tobacco Tax		24,015,000
Revenue from other taxes, privileges, licences, permits, etc., collected by government departments, as shown in Statement No. 5		42,750,000
		$1,226,167,000

32. **Audit of Provincial Income Taxes.** A substantial source of revenue of the Province is Income Taxes, both personal and corporate, which, by Agreement, are collected by the Government of Canada on behalf of the Province; however, due to provisions of the collection agreement, the Auditor General of the Province is unable, himself, to perform the audit work required to express an opinion on the provincial tax revenue.

At the annual meeting of the Canadian Conference of Legislative Auditors, in September 1978, the role of the Government of Canada in the collection of provincial income taxes and the limits placed on provincial auditors were discussed. As a result, a task force was established early in 1979 to address concerns of the Legislative Auditors in these matters. The actual audit work was performed by the staff of the Auditor General of Canada, and the Task Force undertook to review this audit work commencing in April 1979. The Task Force was comprised of representatives from the offices of the Auditor General of Canada, the Provincial Auditor of Ontario, and the Auditor General of Alberta.

The work of the Task Force consisted of reviewing the audit programs, findings and reports of the Auditor General of Canada relating to assessing, proper allocation and accounting for personal and corporate income tax and various provincial tax credits and reporting whether the concerns expressed by Provincial Legislative Auditors have been adequately addressed in the audit work.

The final report of the Task Force has not yet been issued. However, its preliminary findings have been made available and there are no indications that the personal and corporate income taxes were not correctly assessed, properly allocated and transferred by the Government of Canada on behalf of the Province.

At a meeting in September 1981, the Legislative Auditors agreed to rely on the audit procedures of the Office of the Auditor General of Canada. In this regard, new procedures were agreed upon that will provide Provincial Legislative Auditors affected with appropriate assurances on income tax matters.

Department of Finance

33. **Regulation made by the Lieutenant-Governor in Council conflicts with the collection provisions of The Retail Sales Tax Act.** Section 29 of The Retail Sales Tax Act, 1978, states that, "A seller who sells tangible personal property in the province or maintains a place of business or has a representative in the province is deemed to be an agent of Her Majesty and as such shall levy and collect the tax imposed by this Act from the retail purchaser."

Section 30 of the Act requires that the tax, whether the purchase price is stipulated to be payable in cash or on terms or by instalments or otherwise, shall be collected at the time of the sale on the whole amount of the purchase price and remitted by the collector to the Minister of Finance.

Regulation 25 of The Retail Sales Tax Regulations, 1979, conflicts with Section 30 of the Act in that: it allows the seller to remit the tax from his own funds on behalf of the purchaser; and, as well, it permits the purchaser to pay the tax in instalments to the seller rather than at the time of the sale. Additionally, Regulation 25 permits the Minister of Finance to refund to the seller any or all of the tax imposed by the Act on such a loan or credit transaction, if the purchaser is shown to have defaulted in repaying to the seller all or any of the loan or credit given.

I am not satisfied that under The Retail Sales Tax Act, 1978, the Legislature intended that the Province depend on the credit granting and collection policies of the seller as a determining factor as to whether Retail Sales Tax paid over will be retained or eventually refunded. There is no question in my mind that, in all cases, when a taxable item is purchased the tax should be paid in full by the purchaser and remitted by the seller. Furthermore, the Province should not have to concern itself with possible tax refunds because of the inability of the seller to collect his debt from the purchaser. In my view the Act does not permit any discretion on the part of the seller as to the timing of the tax collection. Regulation 25 does give him this discretion, and causes the Province to lose tax revenues which should be collected at the time of sale and remitted.

In my opinion the intent of The Retail Sales Tax Act, 1978, as it relates to the collection of tax from purchasers, is not reflected in The Retail Sales Tax Regulations, 1979.

The Department of Finance should review this situation and take necessary action to ensure that all retail sales tax is collected by sellers in strict accordance with the provisions of the Act.

34. **Proposal by Department of Finance to write off $2 million of unremitted Retail Sales Tax.** In February 1980, the Department of Finance submitted a proposal to Treasury Board that requested authority to remove from the records of the Department in excess of $2,000,000, in unremitted Retail Sales Tax and penalties, owing to the Province by an assortment of individuals and companies.

Although there were a variety of explanations given by the Department for its inability to collect the amounts due the Province, one of the most prominent reasons was the bankruptcies of companies which had collected but not remitted tax.

In August 1980, the Treasury Board responded to the Department's proposal by authorizing the write off of amounts totalling $460,000, but rejecting the write off of other balances totalling $1,604,000. The Treasury Board, it appears, was not satisfied that the guidelines, which it had set down for Departments to follow in dealing with accounts proposed for write off, had been adequately followed by the Department of Finance. At date of my audit (November 1981) the rejected balances had not been resubmitted to the Board by the Department.

Details surrounding certain of the cases proposed by the Department of Finance for write off of Retail Sales Tax are as follows:

(i) An automobile dealership which went into receivership had collected but not remitted tax of $191,592. The Department requested write-off authority, because it was satisfied that there would be no funds available from the bankruptcy proceedings to settle the Province's claim for unremitted tax.

(ii) A company ceased operations in March 1977. It had collected but not remitted tax of $17,644. In May 1977, another company, with basically the same name, operating at the same location, with some of the same owners, and involved in the same business was issued a new vendor's registration number by the Department of Finance and re-opened for business.

(iii) A car rental company terminated business in 1977. It had collected tax in excess of $45,000 from customers but not remitted it. At the time of the termination of that business, the principal owner also had a vendor's registration number to operate a second business. This second operation continued undisturbed even though the owner appears to have misused in excess of $45,000 of public money received from taxpayers of the Province.

(iv) A lounge operator (through his company) ceased operations after its vendor's registration number was cancelled. The company had collected and not remitted in excess of $23,000 of tax. Nine months later the operator applied for and received (through a different company) a new registration number to operate another lounge. He again became delinquent and failed to remit tax collections of this second operation. The vendor's registration was eventually revoked and the operation closed. As a condition of reinstatement of the vendor's registration, the Department of Finance demanded a payment of $4,000 against the tax balance of the first-mentioned operation, and the payment was made, under protest, by the owner. The Department subsequently received advice from the Department of Justice that certain provisions of The Retail Sales Tax Act did not legally permit it to demand this payment and it was refunded. The refund was made, even though the owner was still delinquent in remitting tax collected in the second operation.

Additionally, the owner ceased operations of the second lounge, in May 1979, after collecting and not remitting in excess of $14,000 of tax. He was prosecuted in October 1980, on eight charges of failing to remit tax under The Retail Sales Tax Act, and was convicted and fined $25 (the minimum fine) on each charge for a total of $200. The total amount of tax collected by the operator but not paid over to the Province was in excess of $38,000. This will not be collected but will be submitted to Treasury Board for write-off authorization.

These five cases, described here, involve total losses of public money in excess of $292,000. There are numerous similar cases in the accounts of the Department of Finance which appear destined for write off. In my opinion, the Department of Finance should take every possible action necessary to minimize such substantial losses. It appears to me that immediate action is needed to strengthen the Act and Regulations to make it more difficult for such losses of public money to occur.

From my review of correspondence in the Department of Finance between that Department and the Department of Justice, it appears that legislative changes are needed to strengthen the Province's position in dealing with vendors who collect tax from consumers but fail to remit it to the Province. Legislative weaknesses have been identified in a number of areas, as follows:

(i) Trust Provisions. — One of the critical sections of The Retail Sales Tax Act is the trust provisions of Section 33 of the Act. At present, the Act provides that tax collected by vendors is to be held in trust for the Crown. It has been stated by the Department of Justice, however, that this provision has not proved to be effective, particularly in recovering tax arrears in the case of companies in receivership or liquidation. In such cases, Retail Sales Tax collected by these vendors could not be identified as such; therefore, a valid trust could not be established. This particular situation has cost the taxpayers of the Province many thousands of dollars since the Act was proclaimed in 1950.

(ii) Prosecutions and Penalties. — Prosecutions of vendors by the Department of Finance for offences under The Retail Sales Tax Act have not proved effective in that:

(a) Vendors who have had their registrations cancelled continued retail sales, in some cases.

(b) The provisions for penalties following convictions under the Act are inadequate. At present, the Act provides for a fine of not less than $25 and not more than $1,000 or imprisonment of not more than six months or both. My review of fines imposed discloses that the minimum fine of $25, or slightly higher, is mainly imposed. Therefore, it is essential that the minimum penalty be increased.

(c) The Act does not require the court to order a convicted vendor to pay to the Minister the amount of any taxes owing. Therefore, many court cases result in minimum fines and no collection of unremitted taxes.

(iii) Registration of Vendors. — The Act does not prevent vendors who have previously owned businesses in which registrations were cancelled, from obtaining another registration for another business. This weakness has permitted vendors who owed tax (in respect of a registration number that had been cancelled) to continue to operate another business without paying taxes already owing.

Conclusion. — At 31 March 1981, the Province had recorded Retail Sales Tax Receivable of $12,818,000, an increase of $1,285,000 from the previous fiscal year. The Department of Finance estimates that at least $2,000,000 of this receivable will not be collected.

There have been numerous cases of vendors who have collected and misused Retail Sales Tax since the original Act became effective in 1950. Hundreds of thousands of dollars of tax, which have been collected from consumers, have not been paid over to the Province and have eventually been written off.

The Department of Finance and the Department of Justice have recognized the need for legislative amendments to correct identified weaknesses. Improved trust provisions, stronger provisions for court fines and sentences, and provision for court orders requiring payment of taxes owing from convicted vendors are essential if the effort to prevent losses of public funds such as those described above is to be substantially successful.

In my opinion, the Province should not tolerate the continuing misuse of public funds by Retail Sales Tax Collectors, and the legislation, and its enforcement to prevent such activity, should be as strong as possible. I would expect that this matter would be pursued with the sense of urgency that it deserves, and that the Department of Finance would submit appropriate legislative changes to the House of Assembly for consideration at an early date.

35. **Certain weaknesses in control over the use of tax-exempt fuels.** The Gasoline Tax Act, 1978, provides for the imposition of a tax upon the consumers of gasoline and other like liquids. During 1980-81 gasoline tax totalling $44,471,000 was received by the Department of Finance, a decrease in tax collected of $580,000 from the previous year. The total revenue collected comprised mainly amounts received from major gasoline wholesalers, licenced under agreement with the Minister of Finance to collect the tax, from retailers, on behalf of the Province.

Tax-exempt permits. — The Act and Regulations itemize certain uses of fuels which are tax-exempt. In administering this legislation, the Department of Finance has issued in excess of 12,000 tax-exemption permits to various individuals (mainly fishermen, farmers or loggers) and companies authorizing them to make certain fuel purchases tax free. The tax exemption permits, when presented to a gasoline retailer or wholesaler, entitle the holder to purchase gasoline or diesel fuel without paying gasoline tax.

For identification purposes, the tax-exempt product has been colour dyed by the wholesaler prior to delivery to the retailer.

Statistics prepared by the Department of Finance indicate that during the fiscal year 1980-81, gasoline and diesel fuel, with a total tax exemption of some $18,131,000, were distributed in the Province.

Control of tax-exempt fuel consumption. — My audit of revenue from gasoline tax for 1980-81 disclosed that procedures in effect in the Department of Finance to monitor the purchase, distribution and use of tax-exempt fuels were not completely satisfactory for the following reasons:

(i) Tax-exempt fuels — vendor accountability. — My examination of the Department of Finance tax audit files, of certain vendors authorized to sell tax-exempt fuel products, disclosed that these vendors could not account for the distribution of all tax-exempt fuel purchased from wholesalers. In one instance, the vendor could not account for a total variance of 7,225 gallons between the total purchases and total sales. I have been informed by officials of the Department of Finance that the Department of Justice has advised that gasoline tax cannot be assessed on such discrepancies under The Gasoline Tax Act. The shortages, therefore, go unresolved.

In my view, this situation gives rise to a significant control deficiency. It should not be possible to dispose of tax-exempt fuels illegally and escape assessment and penalty, simply by failing to keep accurate records of purchases and sales. It is obvious that the Department of Finance cannot adequately monitor the distribution of all tax-exempt fuels, if vendors cannot be held accountable for all purchases of the product.

It is essential that the Department take action to rectify this deficiency without delay.

(ii) Audits and inspections of wholesalers, retailers and permit holders. — Section 41 of The Gasoline Tax Act, 1978, permits inspectors to examine all records related to sales, purchases, use or consumption of gasoline as well as the products of any person having in his possession gasoline for sale. At 31 March 1981 there were 12 wholesale distributors and some 1200 licenced retail vendors of fuel products. Of the 1200 retail vendors some 352 were licenced to sell tax-exempt fuels. My audit disclosed that the Department of Finance is not conducting regular audits of the accounts and records of the various wholesalers and retailers. At date of our review (October 1981), the last detailed audit work undertaken for seven of the twelve wholesalers covered the 1976 or a prior operating year. As well, information provided by the Department of Finance disclosed that less than 100 of the retail vendors were exposed to audit during 1980-81. As a result of these audits (performed on retail vendors in two of the four districts by gasoline tax inspectors) 20 out of 26 and 9 out of 11 vendors were assessed penalties for sale of marked products to non-permit holders. I am also concerned that no audits of retail vendors have been carried out since June 1981. During the 1980-81 year, I note that inspections of permit holders amounted to less than 5 percent of the total number of permits issued. In order to assist in establishing control over the distribution and consumption of tax-exempt fuels, a program of regular audits of both wholesalers and retail vendors has to be implemented. In addition it is essential that the Department of Finance increase the number of inspections and reviews of the activities and eligibility of the holders of the 12,000 tax exemption permits.

(iii) Record keeping for permit holders. — At date of my audit (October 1981) the Department of Finance had no effective system of record keeping for consumption of marked products by individual holders of tax exemption permits. The Department is receiving information from both wholesalers and retailers in monthly reports setting out details of quantities of tax-free fuel purchased by individual permit holders. This information is not being summarized in a system of record keeping which would permit the Department of Finance to monitor promptly and act upon excessive or unauthorized usage of the tax-exempt fuels. My audit disclosed that, in general, the information being received from sellers of marked fuel is not being critically reviewed and used on a timely basis as a method of detecting activity which is contrary to the requirements of The Gasoline Tax Act, 1978, and Regulations.

In my view, the Department of Finance should review the matter of record keeping for permit holders and undertake to implement a system of data accumulation which will;

(a) assist in the prompt detection of excessive or other irregular or unauthorized use of tax-exempt fuels;

(b) utilize to the maximum degree the information required from both retailers and wholesalers under the Act and Regulations;

(c) permit the Department to assess the accuracy and reliability of vendor and wholesaler reports on a timely basis;

(d) assist the Department in determining, evaluating, and selecting areas of concern in buyer and seller activities for prompt audit attention.

(iv) Weaknesses in control over collection of Gasoline Tax in a certain area. — My review of certain reports and documents in the Department of Finance disclosed that the control over the collection of tax on gasoline and diesel fuel in a certain area of the Province has been extremely weak in the year under review, 1980-81. It is apparent from my audit of those records that The Gasoline Tax Act, 1978, and Regulations pertaining to colour dyeing and distributing of tax-exempt products and collecting and remitting the tax were not being adequately enforced.

The Department of Finance, in its endeavours to enforce the Gasoline Tax legislation, should examine the weaknesses in control over gasoline and diesel fuel distribution in this area and establish procedures to ensure that the Act and Regulations are applied and enforced uniformly throughout the Province.

Conclusion. — The system of gasoline tax collection, which came into effect in March 1972, permitted exemption at time of purchase as opposed to the former method of full collection and refunding of tax (through a formal application for refund process) on fuel used for non-taxable purposes. The system of tax exemption by permit requires, in my view, extra diligence to ensure full compliance with The Gasoline Tax Act, 1978, and Regulations. Under this system decisions as to distribution of tax-exempt products are to a greater degree removed from the control of the Department of Finance and placed under the control of the sellers of the product. Therefore, in order to attempt to compensate for this significant lack of direct control, it is essential that the Department of Finance ensure that its record-keeping and audits and inspection procedures, and its ability to assess the tax and penalties under the Act, be reviewed and strengthened.

36. **Uncollected Mining and Mineral Rights Tax.** In 1975 the Legislature passed The Mining and Mineral Rights Tax Act, 1975, which replaced The Mining Tax Act, Chapter 239 of The Revised Statutes of Newfoundland, 1970. The 1975 Act imposed taxes on income from mining operations within the Province and, in addition, on income obtained or derived from persons holding "rights to mine." During 1980-81, tax revenue collected under this legislation and other special legislation related to mining operations totalled $27,093,228.

As a result of my 1980-81 audit of this revenue, I direct attention to the following matter:

Tax of $6,378,818 not paid. — At 31 March 1981, tax recorded by the Department of Finance as owing from several mining concerns totalled $7,180,407. Of this amount, $6,790,454 remained uncollected at date of audit (September 1981). Of this uncollected balance $6,378,818 is recorded as owing from one company. It mainly comprises (i) additional royalties of $5,411,920 due for the five years, 1976 to 1980, inclusive, as a result of the price escalation of ore; and (ii) amounts totalling $966,898, withheld by the company from payments to a third company for Mineral Rights Tax for the three years, 1976 to 1978. The amounts withheld were not remitted to the Province, although the mineral rights section of the legislation requires such remittance. However, I have been advised by the Department of Finance that, when the delinquent company submits the required returns it will be entitled to claim refunds from the Province approximately equivalent to the amount of $966,898 now owing. These refunds result because Mineral Rights Tax was withheld and previously remitted to the Province, for account of the company, by the mining company operating the mine.

Details concerning these arrears were last outlined in the 1978-79 Report of the Auditor General and are now updated as follows:

(i) The 1975 liabilities for Mineral Rights Tax withheld and for additional royalty payments were the subject of a court action commenced in July 1976. In a judgement given by the Supreme Court of Newfoundland, in July 1977, the company was ordered to pay taxes totalling $532,153 on account of the 1975 year.

(ii) The company appealed the court's decision.

(iii) In February 1979, the Appeal Division of the Supreme Court of Newfoundland dismissed the appeal; and, in March, the company paid the full amount of 1975 taxes owing, $532,153.

(iv) Subsequently, in April 1979, the Department of Justice commenced a second court action against the company for the non-payment of royalties, totalling $2,577,788, for the years 1976, 1977 and 1978.

Supplemental information indicated that, in June 1976, the company wanted to avoid legal proceedings being instituted and submitted a proposal for the liquidation of the tax and royalty then owing, which, at that time, amounted to the aforementioned sum of $532,153. The company proposed an extension of four months (to October 31, 1976) for payment of the 1975 tax arrears. It proposed to pay by assigning to the Province certain royalty payments due them from a third company. The Department of Finance rejected the proposal and took legal action. This action, commenced in July 1976, resulted in the 1975 tax liability not being paid until March 1979. Additionally, the amounts now recorded as owing from the company for the five years, 1976-1980, inclusive, stands at $6,378,818.

At date of my 1980-81 audit (September 1981):

(i) The court action commenced by the Department of Justice, in April 1979, for the collection of 1976, 1977 and 1978 royalties, totalling $2,577,788, had not gone to trial.

(ii) The Province had not commenced court action to recover 1979 and 1980 royalties owing, totalling $2,834,132.

37. **Denial of liability for Mineral Rights Tax and failure to enforce tax collection.** A company, which is a wholly-owned subsidiary, is the holder of lands being mined under agreement by a third company.

Correspondence at the Department of Finance indicates that the parent company, on behalf of its subsidiary, has denied liability for Mineral Rights Tax. The subsidiary has not filed properly completed returns nor paid tax for six taxation years, 1975 to 1980, inclusive. The parent company has submitted opinions from its legal advisors in support of its denial of liability.

Department of Finance tax officials and their legal advisors in the Department of Justice have concluded that the relationship between the subsidiary and the third company is one in which payments are, in effect, being made for the right to mine; and, the intent of the legislation was to tax such an arrangement.

In his 1978-79 Report, the Auditor General disclosed that although the Department of Finance has received several legal opinions from the Department of Justice about this case, it has not taken action to (i) determine the amounts of tax owing for the years 1976, 1977 and 1978, and (ii) issue assessments and collect the tax. The Auditor General expressed the opinion that, "since the Department of Finance has been advised of its legal position, it should, without delay, take whatever action is necessary to determine, assess and collect all of the taxes owing."

My review of subsequent activity related to this case (at date of my 1980-81 audit, September 1981) disclosed the following:

(i) The Department of Finance issued the 1975 tax assessment notice in December 1979, showing a total assessment of $427,089 and an unpaid balance of $300,930.

(ii) The company filed an appeal of the 1975 assessment with the Mining Tax Review Board, in March 1980.

(iii) The Appeal Board, in a decision received by the Department of Finance in December 1980, ruled the 1975 assessment valid.

(iv) The balance of the 1975 assessment ($300,930) has not been collected and I am advised by the Comptroller General of Finance, in correspondence dated 12 January 1982, that the company has appealed the Board's decision to the Supreme Court of Newfoundland.

(v) The company has not been assessed for Mineral Rights Tax for the five years, 1976 to 1980.

The Mining and Mineral Rights Tax Legislation was enacted in 1975. Since that time, the company has continuously denied liability and refused to submit properly completed tax returns and pay the tax owing. This is the case, even though officials of the Department of Finance, with the support of officials of the Department of Justice, feel that payment is being received for the right to mine; therefore, Mineral Rights Tax is properly due and the tax for all years should be determined, assessed and collected. It is indicated, in documents on file in the Department of Finance, that the arrangement between the company owning the mining rights and a second company which is undertaking the mining activity makes it very difficult to determine the exact amount of the payments, for the right to mine, subsequent to 1975.

Nevertheless, based on my review of all the related documentation, it is my opinion that the intent of the legislation is not being adequately enforced in this case. I do not understand why the Department of Finance, in conjunction with the Departments of Justice, and Mines and Energy, has not taken decisive action on this matter, whether such action involves recourse to the courts or legislative review and change. If the application of this taxing legislation is to be consistent, the Province will have to ensure that it is in a position to determine, assess and collect the significant tax liability that appears to be involved in this case.

38. **Refunds of tax.** In accordance with Section 67(4)(g) of The Financial Administration Act, 1973, I report that refunds of tax during 1980-81 were made as follows:

Gasoline Tax	$ 537,000
Retail Sales Tax	511,000
Insurance Premiums Tax	9,000
Insurance Companies Tax	3,000
	$1,060,000

Department of Forest Resources and Lands

39. **Provisions of The Forest Land (Management and Taxation) Act, 1974, not being enforced.**

Background. — The Forest Land (Management and Taxation) Act, 1974, was enacted to bring certain forest lands under proper management and to impose varying degrees of taxation in respect thereof. The statement of purpose as set out in the legislation reads, "The purpose of this Act is to encourage good husbandry of the forest resources of the province by a tax arrangement that benefits persons who manage their forest lands." The Act provides for a lower rate of tax (managed land tax) for those who properly manage their forest lands and a higher rate of tax (unmanaged land tax) for those who do not.

Landholders are required, by the legislation, to submit long-term management plans and annual operating plans using certain forest management criteria set out in the Act and Regulations. Annual "Certificates of Managed Land" are issued to landholders by the Minister of Forest Resources and Lands, based upon the Minister's approval and the approval of the Lieutenant-Governor in Council, of the management plans. The legislation intends that the failure of a landholder to manage the land in accordance with an approved management plan, will result in the cancellation of the related certificate. Such cancellation should, immediately, cause the unmanaged land tax to be assessed.

Audit Findings. — The Province has not collected any significant amount of unmanaged land tax since the Act came into force in 1975. This is so, even though there is significant evidence in the Department's files that proper forest management procedures are not being practiced by certain landholders.

My review of the Department's files for one company, disclosed that:

(i) A "Certificate of Managed Land" was issued to it for the 1979 calendar year, in November 1979, based upon its annual operating plan.

(ii) The company's "Report on past annual operations" for the year 1979, which, by Regulation, was due on 30 June 1980, was not received until December 1980.

An evaluation of that report, by officials of the Department of Forest Resources and Lands, disclosed significant variances from the management plan approved by the Province under the Act. The Department concluded, among other things, that:

> "Of the 28 areas approved for cutting in 1979, cutting occurred in only 13."
>
> "Cutting occurred in 15 areas that had not been approved for cutting."
>
> "Significant volumes of undamaged balsam fir, 40-45 years old were harvested in non-approved areas . . . . The cutting of such areas is unacceptable."

As well, in relation to these matters, the Department has noted that "The Company Unit Forester is continually bringing up these problems and discussing them with the Company, but they are still not operating as per their plan."

Despite the Department's critical evaluation of this company's performance,

(i) the "Certificate of Managed Land" was not revoked, and

(ii) the unmanaged land tax was not assessed.

Conclusion. — As a result of my audit, I am not satisfied that all provisions of The Forest Land (Management and Taxation) Act, 1974, were strictly enforced in dealings between the landholder and the Province.

If the Province's administration of the legislation is to be equitable to all landholders, then those guilty of non-compliance have to be penalized. A landholder who complies and manages landholdings properly should expect to pay less tax than one who does not comply, since this is required by the Act.

In my view, in all cases of non-compliance, the "Certificate of Managed Land" should be immediately revoked and the unmanaged land tax assessed.

Department of Tourism, Recreation and Culture

40. **Licence-vendors' commission paid without any legislative appropriation.** Inland fishery and game licences are sold throughout the Province by licence vendors. The Wild Life (Shooting, Hunting, Trapping and Furbearing Animals) Regulations, 1959, provide that persons, other than employees of the provincial government, who issue hunting, fishing or trapping licences on behalf of the Minister (of Tourism, Recreation and Culture) may be paid a commission equal to 15 percent of the value of the licences issued by them or in cases where no licence fee is charged for the licences issued may be paid the sum of twenty dollars ($20.00) in lieu of the commission.

My audit of the accounts of the Department of Tourism, Recreation and Culture, for 1980-81, disclosed that commissions, totalling $66,156, were paid to licence vendors. However, the total amount paid was not charged to expenditure, but was accounted for as revenue refunds. The result is that revenue reported in the Public Accounts of the Province for 1980-81, under Subhead 1392.01.02, Inland Fishery and Game Licences, is understated by the amount of $66,156, while the actual expenditure of a similar amount is not reported in the Public Accounts at all.

In my opinion, the commissions paid to licence vendors should not have been accounted for as revenue refunds; they represent expenditures incurred relating to the sales of licences. These commissions should have been classified as expenditures. Furthermore, the disbursement of public funds without legislative appropriation against which it could be charged is, in my opinion, not in accordance with Section 22 of The Financial Administration Act, 1973, which requires that no issue of public money shall be made out of the Consolidated Revenue Fund except under authority of the Legislature.

COMMENTS ON EXPENDITURE AND RELATED REVENUE

Executive Council

41. **Public Accounts Committee Recommendations.** The Report of the Public Accounts Committee for the financial year ended 31 March 1979, was tabled in the House of Assembly on 4 May 1981. The Committee examined two paragraphs of the 1978-79 Auditor General's Report and made eight recommendations. The two paragraphs examined were as follows:

(i) Paragraph 27, Cost of political poll charged against public funds.

(ii) Paragraph 28, Political Convention expenses charged against public funds.

With respect to (i), the Committee's recommendation, Number 4, states: "The Minister of Justice should direct his officials to immediately initiate law suits to recover the funds paid out under the Devine Contract. It is clear that the contract was not properly carried out and that payment should not have been made from public funds."

With respect to (ii), the Committee's recommendation, Number 6, states: "It is the recommendation of the Committee that the full amount of these political expenses be determined and that an action be initiated on behalf of the Government of Newfoundland to recover the full amount that was expended on these political ads."

On 31 December 1981, I wrote the Deputy Minister of Justice and requested that he inform me of any action taken or to be taken by his Department to implement the aforementioned recommendations. In his reply, the Deputy Minister informed me that, following a detailed analysis, officials of his Department concluded that there is not sufficient evidence to succeed in an action to recover funds paid out under the Devine Contract. Therefore, no such action has been commenced. With respect to recommendation Number 6, I am informed by the Deputy Minister that officials of his Department have reviewed the matter and have advised the Minister of Justice, and that this matter will be referred to Cabinet for its decision as to the appropriate course of action.

Department of Finance

42. **Rearrangement and transfer of duties in the Public Service.** The Public Service (Rearrangements and Transfers of Duties) Act, Chapter 320 of the Revised Statutes of Newfoundland, 1970, states in Section 2, "The Lieutenant-Governor in Council may transfer any powers, duties or functions or the control or supervision of any part of the public service from one Minister of the Crown to any other Minister of the Crown, or from one department or portion of the public service to any other department or portion of the public service . . . ."

Section 3 of the same Act provides that when such a transfer is made "the Minister, department or branch to which the power, duty, function, control or supervision is transferred and the appropriate officers of that department or branch shall, in relation thereto, be substituted for and have and may exercise the respective powers and duties that formerly belonged to or were exercisable by the Minister, department or branch and the respective officers of the department or branch from which the power, duty, function, control or supervision is so transferred."

Minute of Council 1064-'80, dated 20 August 1980, ordered, among other things, that, "under authority of The Public Service (Rearrangements and Transfers of Duties) Act, the following rearrangements and transfers be and they are hereby approved with effect from a current date:

(1) the Tourist Services function of the Department of Recreation and Culture to be transferred to the Department of Industrial Development;

(2) the functions of the Registry of Bills and Sales, Consumer Affairs, Corporate Affairs and Landlord-Tenant Relations of the Department of Consumer Affairs and Environment to be transferred to the Department of Justice;

(3) the function of Metric Conversion of the Department of Consumer Affairs and Environment to be transferred to the Department of Education;

(4) the Communications Division function of the Department of Transportation and Communications to be transferred to the Intergovernmental Affairs Secretariat;

(5) the Housing function of the Department of Municipal Affairs and Housing to be transferred to the Department of Industrial Development; and

(6) the Co-operatives Registry function of the Department of Consumer Affairs and Environment to be transferred to the Department of Rural, Agricultural and Northern Development."

My audit of the accounts of the Departments affected by the order contained in Minute of Council 1064-'80, disclosed that no action was taken to change the reporting of the revenues and expenditures, in the 1980-81 Public Accounts, to reflect the changes resulting from the rearrangements and transfers of duties referred to herein.

I have corresponded with the Comptroller General of Finance, with a view to having the necessary changes made in the Public Accounts for 1980-81. In his reply the Comptroller General stated, among other things: "In any event, I feel that it would now be very difficult, if not impossible, to make the changes to the Province's accounts which would be necessary to disclose the effects of Minute of Council 1064-'80 on the departments concerned in the 1980-81 fiscal year. This is especially true because of the fact that the Minute of Council does not refer to a specific date for implementation of the orders contained therein. It is this Department's intention, therefore, to disclose the effects of Minute of Council 1064-'80 on the departments concerned by way of a note to the appropriate Statements of Expenditure and Related Revenue."

This action to disclose by way of a note, the effects of Minute of Council 1064-'80 on the statements of the Departments involved, does not, in my opinion, adequately carry out the order of the Lieutenant-Governor in Council as embodied in the Minute of Council. As a result, the Statements of Expenditure and Related Revenue of the Departments affected do not show all of the expenditures and related revenue under the Departments to which they belong.

43. **Audit of the General Service Payroll System.** In paragraph 29 of his 1979 Report, the Auditor General summarized the results of his audit of the General Service Payroll System for the 1978-79 year. Paragraph 27 of the 1980 Report of the Auditor General updated these comments to reflect the situation in effect during the 1979-80 year.

During 1979 the Auditor General issued two reports on the results of his audit. These reports identified a number of control weaknesses and made recommendations for improvement in the system. The possible exposures which could result from these control weaknesses were:

(i) unauthorized, fraudulent or incorrect payroll transactions could be initiated;

(ii) payroll transactions could be added or lost during processing;

(iii) payroll processing errors could remain undetected;

(iv) terminated employees could continue to be paid; and

(v) payroll expenditures could be inaccurately accounted for and reported in the government accounts.

In order to overcome or eliminate the control weaknesses and to reduce the risk of exposure, the Auditor General made the following recommendations:

(i) The functions of initiation and authorization of payroll transactions should be segregated. The person or persons responsible for initiating transactions should not also be responsible for receiving, balancing and/or distributing output.

(ii) Control over transactions should be established as close as possible to the point of origin. A control function should be established within the Administrative Sections of all Departments, responsible for logging batches of transactions and control totals, and for reconciling output back to input.

(iii) A separate control group should be established within the Payroll Processing Section of the Department of Finance, responsible for:

- logging batches and control totals;
- submitting batches of transactions to Newfoundland and Labrador Computer Services Limited for processing;
- ensuring that all errors reported by the system are corrected and that the corrected transactions are re-entered into the system;
- receiving output from Newfoundland and Labrador Computer Services Limited and reconciling or balancing the output to the control totals; and
- distributing the output to the originating Departments.

(iv) Proper error correction procedures should be established.

(v) Output should be reconciled or balanced to input.

(vi) Payroll procedures in all Departments should be standardized and adequately documented.

I now report that during the year 1980-81 I conducted a second audit of the General Service Payroll System in an effort to determine whether there had been any significant improvement in the situation as reported by the Auditor General in his 1979 Report. My tests were based on the payroll of 11 March 1981 and involved the use of the computer in the selection and evaluation process. The results of my audit were as follows:

(i) Of one hundred and sixty-seven regular payroll records examined in detail, the following errors or weaknesses were disclosed:

- Seven errors in the calculation of gross pay;
- Five errors in the calculation of net pay;
- Fifty-four cases in which I could not satisfy myself that attendance records were properly maintained and/or approved;
- Twenty-one cases in which I could not satisfy myself that input forms were properly authorized; and
- Twenty-seven cases in which the objective of the test could not be achieved because of a lack of adequate audit evidence in the payroll files.

(ii) All forty-seven negative records for the pay period were examined and five were found to contain errors. This represents a true eleven percent error rate and is considered to be unacceptable.

(iii) Of sixty-eight randomly selected zero records examined no errors were disclosed.

Based on this audit, I have concluded that the weaknesses in the General Service Payroll System, as previously reported, were also present during the 1980-81 year. In particular, in my opinion, controls to enhance the completeness, accuracy and proper authorization of payroll transactions were deficient. Also, in my opinion, an unacceptable error rate existed in certain types of payroll records or transactions.

I have been informed that effective 25 March 1981, as a result of the recommendations of the Auditor General, certain changes were implemented in the General Service Payroll System. To date I have not audited these changes and, therefore, I cannot comment, at this time, on their effect on the overall system. I am concerned, however, that many of the areas previously reported are often controlled by the user Departments as opposed to the central payroll group. Thus, despite the fact that many improvements may be planned or implemented at the Department of Finance Payroll Processing Division level, such improvements may not have the required effect until the System in the user Departments is also improved.

It is my intention that a review of the General Service Payroll System be carried out for the 1981-82 fiscal year. At that time I plan to evaluate the effect of the proposed improvements in an effort to assess their impact on the overall system. When this review is completed I will be in a position to report whether the control weaknesses, as previously reported, have been eliminated.

Department of Education

44. **Audit of Teachers' Payroll System.** In paragraph 30 of his 1979-80 Report, the Auditor General disclosed that an audit of the Teachers' Payroll System was in progress and that the initial stages of the audit had been completed. He noted that a management letter was issued on 12 December 1980 on the audit findings to that date. The report disclosed that the most serious deficiency observed was the almost complete lack of internal control within the Teachers' Payroll System. The overall recommendation to the Department of Education was that it should, as soon as possible, undertake an extensive review of the entire Teachers' Payroll System with a view to evaluating it and taking corrective action where necessary.

Because of the very serious deficiencies in internal control disclosed during the 1979-80 audit, I could place little reliance on the Teachers' Payroll System. As a result, the final stage of the audit was designed using substantive audit procedures on a sample of cheque transactions that were selected from the payrolls for the period 1 September 1980 to 31 December 1980, using statistical sampling techniques.

The results of the audit procedures disclosed that:

- There are serious deficiencies in internal control over the payment of salaries of teachers.
- There was a lack of documentation in the files of the Teachers' Payroll Division to support the payments made to teachers.
- There was inadequate accounting for the salary payments.
- The legislation under which the payments were made was, in part, ambiguous, and, in some cases, was inconsistently applied or not adhered to by the Department.

The details of my concerns in these areas were made known to the Department in a management letter dated 14 September 1981.

Because of these and other factors as revealed by the audit, I am not able to satisfy myself as to the correctness of the salary payments to teachers for the period 1 September 1980 to 31 December 1980. Although I cannot conclude that the salary payments to teachers were materially incorrect, I firmly believe that I can conclude that the Department of Education cannot satisfy me that the salary payments made to teachers for this period are correct. Therefore, I conclude that I cannot be satisfied with this system, which processed payments totalling approximately $60,000,000 during the period 1 September 1980 to 31 December 1980.

Since the last Report of the Auditor General to the House of Assembly, the Department of Education set up a Steering Committee and a Project Team to review the findings as disclosed in the Auditor General's letter of 12 December 1980 and also to review the Teachers' Payroll System. While I acknowledge that the Department of Education has acted upon the major recommendation in the Auditor General's previous report, I must state that I believe that much of the work to date (14 September 1981) has been of a preliminary nature. In actual fact, very few specific improvements have been made to the Teachers' Payroll System since the letter of 12 December 1980.

I urge that the Department of Education (with assistance from Treasury Board, the Department of Finance, and Newfoundland and Labrador Computer Services Limited) take immediate action to correct the deficiencies which exist and have been reported to the Department of Education concerning the Teachers' Payroll System.

45. **Unsatisfactory accounting for and control over the payment of teachers' payroll deductions.** The audit of Subdivision 605.20.04, Services to Schools and School Boards, Related Revenue, Recovery Overpayments, Teachers' Income Taxes, for the 1979-80 financial year, disclosed that $152,202 was received by the Department of Education due to a previous overpayment or overpayments to Revenue Canada Taxation on account of payroll deductions.

Upon investigation it was noted that the Department was unable to provide my staff with adequate documentation to indicate whether the amount received was correct. Further analysis revealed that the Department did not reconcile, with its records, the figures on the "Discrepancy Notice" which it received from Revenue Canada Taxation. Without such reconciliation the Department did not know why differences existed between its records and those of Revenue Canada Taxation.

It was further noted during the audit, that in 1976 Revenue Canada Taxation assessed the Department of Education $110,025 for unremitted payroll deductions relating to the 1975 calendar year. The Department subsequently paid this amount. However, there was no documented evidence on file in the Department to indicate whether this amount was verified as correct. In fact, there was no record of any reconciliation of this amount to the Department's payroll records.

Upon completion of the audit, these matters were reported to the Department in a letter dated 17 March 1981. As of 31 October 1981, I have not received a response to that letter and have not been informed of the action, if any, the Department has taken concerning this matter.

In my opinion, immediate action should be taken by the Department to:

(i) identify the reason for these discrepancies and reconcile the figures supplied by Revenue Canada Taxation with its own records; and

(ii) take appropriate action so that such discrepancies are resolved on a timely basis in future.

46. **Irregular payment of $570,616 for fire insurance premiums on school buildings.** Minute of Council 591-'79 of 1 May 1979 ordered that, on the recommendation of the School Insurance Committee and representatives of the Federation of School Boards, the contract for school insurance (which, under the existing government policy, was being funded by the Province) be awarded to an insurance underwriter named in the Minute of Council.

With reference to the insurance contract, the Minute of Council provided that: "The policy to be non-cancellable for a period of three years with effect from April 1st., 1979, with a $1,000,000 deductible at an annual premium of $1,181,854 as outlined in the relevant Submission." The submission referred to was a Treasury Board Memorandum to the Executive Council dated 26 April 1979.

My audit of property insurance premiums paid for the policy years 1979-80 and 1980-81 on the insurance policy referred to in Minute of Council 591-'79, disclosed excess payments of $125,000 and $445,616, respectively (net of Insurance Tax) over the authorized annual premium of $1,181,854.

Officials of the Department of Education contend, in effect, that the excess payments for the two years, totalling $570,616, were properly authorized and made within legislative appropriations; and, the amounts paid were due the insurance underwriter as a result of changes in the insurance policy (which were negotiated subsequently to the date of Minute of Council 591-'79) to cover increased replacement values for the insured properties. However, in my opinion:

(i) The legislative appropriations sought by the Department of Education and voted by the Legislature for 1980-81, included provision for the excess amounts of $125,000 and $445,616, thus resulting in appropriations which were in excess of the annual amounts authorized by Minute of Council 591-'79.

(ii) It is questionable whether the negotiated changes in the insurance policy and the resulting payments of the excess premiums should have occurred at all, considering the existence, at the time, of tender specifications and the successful tenderer's proposal documents for fire insurance on school buildings for the three-year period 1 April 1979 to 31 March 1982.

I note in expressing the above opinion, that:

(i) There was no Insurance Contract executed relative to the property insurance coverage. It is, therefore, difficult, if not impossible, to determine what the initial terms of arrangement for insurance were and what the subsequently negotiated changes were, and their interrelationships.

(ii) The Insurance Division of Treasury Board was involved in the processes relative to the school insurance program. In a letter dated 30 April 1979 from the Secretary, Treasury Board to the School Insurance Committee, it was stated that "the Government has accepted your Committee's proposal regarding the Insurance Programs . . . ." Also, the letter stated "It is understood that the Policy wording is as per the Tender Specifications and that no change in the program is to be made without prior consultation with the Government's Insurance Manager."

So that these matters will receive follow-up attention, I have communicated my objection to the charges of the amount of $125,000 and $445,616 (net of Insurance Tax) against the appropriations of the Department of Education to the Deputy Minister of Education and to the Comptroller General of Finance, as provided for under Section 64(1) of The Financial Administration Act, 1973.

47. **Payment of tuition fees and allowances, totalling $5,176,400, without proper authority.** Expenditures charged to Subdivisions 603.04.01, Student Aid, Memorial University, Tuition, and 603.04.02, Student Aid, Memorial University, Allowances, amounted to $1,995,000 and $3,181,400, respectively, during the 1980-81 financial year.

The legislative authority to make regulations authorizing the payment of these tuition fees and allowances comes from The University Fees and Allowances Act. The criteria for determining assistance under this Act were originally approved by the Lieutenant-Governor on 22 September 1966 and published in the Newfoundland Gazette of 27 September 1966. The regulations approved at that time were known as The University Student Aid Rules, 1966. I note that these regulations have not been officially amended or revoked up to October 1981. Therefore, these are the only regulations which have been approved for the administration of the Student Aid Program.

My audit for the 1980-81 financial year revealed that criteria for determining assistance during 1980-81 under the Student Aid Program were set out in a brochure called Newfoundland Student Aid Program. The printing of this brochure for the Department of Education was approved by a Treasury Board Authority issued in April 1980. I note that the criteria in the brochure are substantially different from those in the regulations gazetted in 1966. However, the regulations which were approved and gazetted in 1966 have not been amended to reflect the changes made in the criteria.

In my opinion, the criteria under which the Student Aid Program was administered for the 1980-81 financial year were not properly authorized. Therefore, the payments under the program, amounting to $5,176,400, were made without proper authority.

48. **Payment without adequate supporting documents.** Expenditures charged to Subdivision 617.03.01, Other Grants, Operating Assistance and Grants, Eskimo and Indian Education, are made to various school boards for the operation of schools providing education for Eskimo and Indian children. The Department of Education informed my auditors that the payments charged to this Subdivision are based on certified claims prepared by the appropriate school board officials. The supporting documents (invoices, etc.) are kept on file at the various school board offices.

The audit of this Subdivision for the 1980-81 financial year disclosed that two payments, totalling $38,507, were processed on the basis of letters from a school board requesting payments without any certified claim being made. Also, when the supporting documents for the payments were requested (by the Department of Education at my request) and received from the school boards, it was revealed that there were not sufficient invoices dated in 1980-81 to support the amounts paid. The Department of Education is currently following up on this matter.

In my opinion, the system and procedures in effect for payments under this Subdivision should be reviewed and revised; and, in future, all necessary supporting documents should be received by the Department before payments are made.

49. **Poor cash management resulting in unnecessary cost to the Province.** The audit of Subdivision 605.03.05, Services to Schools and School Boards, Operating Grants and Assistance, Insurance, disclosed a payment of $1,930,371 to the School Insurance Committee to cover the costs of insurance premiums on school buildings operated by various School Boards.

The Committee invested these funds in short term deposits for a total of twenty-five days at an average yield of 8.82 percent per annum. The interest earned on these public funds, which amounted to $11,662, was retained by it.

In April 1980, when the payment was made, the Province's short-term borrowing rate was 15.24 percent per annum. It would, therefore, cost the Province $20,150 to borrow the $1,930,371 for the twenty-five days. In my opinion, the payment of these funds to the Committee and the short-term investment of the funds by it, constituted poor cash management by the Department of Education, especially when one considers that the interest earned by the Committee ($11,662) was not paid to the Province.

In my opinion:

(i) The Department of Education should recover the interest earned by the Committee.

(ii) In future, the Department should pay the insurance premiums directly to the third party, thus ensuring the public funds are managed at the lowest possible cost to the Province, and not to the detriment of its cash position.

50. **Objection of the Auditor General upheld by Treasury Board.** In paragraph 31 of his 1979-80 Report, the Auditor General cited (for the second consecutive year) an irregular payment by the Department of Education to a School Board in Labrador. The 1979-80 payment of $25,000 was made, without legislative appropriation, to reimburse the School Board for an expenditure it had made.

Because funds appropriated by the Legislature did not contain any provision for the Department's expenditure, I communicated my objection to the payment, in writing, to the Deputy Minister of Education and to the Comptroller of Finance. This objection was made in accordance with Section 64(1) of The Financial Administration Act, 1973.

I now report that the objection of the Auditor General was upheld by the Treasury Board. Also, the Board's directive on the matter was reported to the Lieutenant-Governor in Council as required by Section 64(3) of The Financial Administration Act, 1973. As well, the President of Treasury Board wrote the Minister of Education questioning why such a payment was made when a similar payment made in the previous year was objected to by the Auditor General and was being dealt with by the Treasury Board. In addition, the Board repeated its request of 28 January 1981 that, "the department officials involved be advised as to the proper procedures to follow regarding similar types of incidences, in order that they may be prevented in future."

The position taken by Treasury Board concerning this matter is hereby noted, and I expect that the Department of Education will comply with its directive.

Department of Social Services

51. **Lack of control over Short-Term Social Assistance.** I have examined the Department of Social Service's system of financial management and accounting control over payments made to short-term social assistance recipients for the year ended 31 March 1981. The objectives of my examination were:

(i) To review and evaluate the financial controls within the system;

(ii) To conduct audit tests of the transactions and records of the Department in order to assess the impact of any identified control weaknesses on the reported expenditure; and

(iii) Based on my audit examination, to form an opinion on the financial management and accounting control over the entire system.

In relation to these objectives, I report as follows:

(i) My review and evaluation of the system leads me to conclude that the administrative and accounting system for Short-Term Social Assistance does not include sufficient controls to adequately prevent or detect errors in the payment of and the recording of short-term assistance. As a result of these weaknesses I am concerned that:

(a) transactions may be initiated and recorded without proper authorization;

(b) the initial recording of a transaction or its conversion into a computer processing form may be incomplete, or entirely omitted;

(c) inaccuracies may occur in the recording, conversion or error correction processes; and

(d) the reconciliation of the short-term assistance bank account with the records of the Department is not being adequately performed on a timely basis. This reconciliation is a necessary control in the present system to prevent or detect errors in the preparation, processing or recording of payments to recipients.

(ii) My tests of transactions and my review of the records of the Department revealed that:

(a) There are deficiencies in the recording, collecting and controlling of overpayments to recipients. These matters are also referred to in paragraph 52 of this Report.

(b) Cheques used to pay short-term assistance require the signatures of two signing officers. In certain cases, however, cheques are being pre-signed in blank. When cheques are signed in advance, the control feature afforded by the countersigning officer's critical review of the transaction is lost, and the risk of unauthorized use of such cheques exists.

(c) There is a misstatement of total expenditure in the Short-Term Social Assistance expenditure account. I note that the short-term social assistance bank account had not been reconciled to 31 March 1981, and, as a result, there were many transactions relating to the 1980-81 financial year which were not recorded in the accounts of the Department; and, rental payments in excess of $350,000, paid on behalf of social assistance recipients, were recorded twice in error.

In view of errors and unrecorded transactions detected during my audit, I did not attempt to determine the amount by which this expenditure account was misstated as at 31 March 1981.

(iii) In my opinion, based on my audit examination of the system and my examination of the records of the Department of Social Services, the present system of financial management and accounting control over payments relating to Short-Term Social Assistance is not adequate to ensure the completeness, accuracy and proper authorization of recorded expenditure.

In my opinion, immediate action should be taken to correct this situation by implementing corrective measures and, where necessary, modifying and improving the present system.

52. **Overpayments of Social Assistance.** The Department of Social Services defines as accounts receivable which result from social assistance payments, "assistance issued for any reason, over and above that for which a recipient is eligible under the regulations." As at 31 March 1981, the Department's records indicated that there were 15,469 accounts receivable outstanding, resulting from overpayments of social assistance, for a total value of $3,697,960. Included in this amount were: 736 accounts in excess of $1,000; 31 accounts in excess of $5,000; and, two accounts in excess of $10,000.

My review of departmental documentation indicated that there were many cases of overpayments which had not been recorded by the Department as at 31 March 1981. A number of these cases are awaiting court action or further investigation.

Three particularly large, unrecorded cases occurred as a result of overpayments which extended over a number of years. Departmental officials have estimated that one of these may exceed $43,000, while the other two may exceed $25,000 and $6,700, respectively.

I was unable to satisfy myself in the course of my audit that the Department was actively pursuing the collection of accounts receivable. In particular, I noted that there appears to have been little communication with debtors who were no longer receiving social assistance. I also noted that recoveries of overpayments were not being made in all cases where debtors were currently receiving social assistance.

The Department's officials have advised me that subsequent to 31 March 1981 they have initiated certain actions in a number of districts to correct this situation.

The records of the Department indicate that there are 1,758 credit balances in accounts receivable totalling $132,280. This indicates that collections of overpayments have been made in some cases without the corresponding account receivable having been set up. This would also indicate that the amount reported by the Department as accounts receivable, at 31 March 1981, is understated by an amount which could only be determined when reconciliation of these accounts has been completed.

In my opinion, the systems and procedures in effect in the Department of Social Services are not adequate to ensure proper administrative and accounting control over recording and collecting amounts due to the Province as a result of overpayments of social assistance.

Department of Health

53. **Medical and hospital expenses — third party liability recoveries.** In several previous reports my predecessor expressed concern about the practice followed by the Department of Health of allowing collectors to deduct their fees from monies collected, relating to expenses of medical and hospital services provided to patients, in cases involving third party liability.

My audit disclosed that of the total amount of $493,707, shown in departmental records as recovered from third parties, during 1980-81, only $391,207 was deposited to the Consolidated Revenue Fund. The balance of $102,500 was retained by collectors as fees for their services. Audit also disclosed that collection fees charged against Subdivision 1016.04.02, Third Party Liability Collection Fees, totalled $2,202. This represents only the fees paid to collectors by the Department of Health during 1980-81. If all collection fees had been charged as expenditure the total reported would have been $104,702.

In my opinion, the handling of public money in this manner does not conform with Section 13 of The Financial Administration Act, 1973, which requires that all public money, unless otherwise provided by statute, shall be paid promptly to the credit of the Consolidated Revenue Fund. Also, the collection fees, totalling $102,500, retained by collectors and charged to the Province constitutes expenditure which, under the accounting practice followed by the Province in 1980-81, was neither appropriated by the Legislature nor reported in the Public Accounts of the Province.

Department of Tourism, Recreation and Culture

54. **Weaknesses in the administration and control of the Community Sports Facilities, Recreation Capital Grants Program.** Expenditure charged to Subdivision 1309.06, Recreation and Sports Services, Community Sports Facilities (Capital), amounted to $2,003,429 for grants to various incorporated communities, rural areas and other groups to assist with the construction of sports facilities, the purchase of equipment and for other items. My audit disclosed that the Department had guidelines outlining the provisions of the program, but in a number of cases the requirements of the guidelines were not complied with by the applicants nor enforced by the Department. Audit of 30% of the total payments disclosed the following weaknesses:

(i) In nine cases, with payments of $186,029, the prescribed application forms had not been submitted by the applicants for approval.

(ii) In fifteen cases, with payments of $154,000, all information required was not included in the project feasibility studies.

(iii) In three cases, with payments of $25,029, no feasibility studies were on file.

(iv) In seven cases, with payments of $163,000, the commitments given exceeded the maximum allowable under the Department's guidelines.

As reported in paragraph 39 of the Auditor General's 1979-80 Report, Section 18 of The Department of Tourism, Recreation and Culture Act permits the Lieutenant-Governor in Council to make regulations providing for any matters concerning which he deems regulations are necessary or desirable to carry out the purposes and provisions of the Act. Under the Act, such regulations could be made respecting the provision of financial assistance for the encouragement, promotion, establishment, development, co-ordination and implementation of amateur sport, fitness and recreational activities. However, audit disclosed that no such regulations have been issued.

In my opinion, the existing guidelines applicable to this capital grants program are treated as flexible and, therefore, do not result in consistent administration and control of the program. These guidelines should be replaced by regulations issued under Section 18 of The Department of Tourism, Recreation and Culture Act.

55. **Expenditure of 1980-81 incorrectly charged to the 1981-82 fiscal year.** The Department of Tourism, Recreation and Culture administers an electrical power subsidy program which is designed to assist, financially, certain groups in meeting the cost of electricity used in operating arenas and indoor swimming pools. To obtain such financial assistance, those groups who qualify submit claims, usually monthly, to the Department of Tourism, Recreation and Culture; the claims are supported by paid bills for electricity. Reimbursement is made by the Department based upon a percentage of the amount of paid bills submitted.

During the fiscal year 1980-81, electrical power subsidies totalling $419,664, were paid and charged as expenditure under Subhead 1309.05, Recreation and Sports Services, Electrical Power Subsidy. My audit disclosed that claims totalling $63,055, for electrical power subsidy, were paid in May 1981, and were charged as expenditure of the 1981-82 fiscal year. These claims were received by the Department of Culture, Recreation and Youth prior to the 30 April 1981.

In my opinion, since there were unexpended balances of appropriations available within the Head of Expenditure, the expenditure of $63,055, associated with these claims should have been charged as expenditure of the 1980-81 fiscal year, as provided for by Section 24(1) of The Financial Administration Act, 1973, instead of being incorrectly charged to the 1981-82 fiscal year.

56. **Understatement of expenditures of public funds and related revenue, relating to operations of Arts and Culture Centres.** My audit of the accounts of the Arts and Culture Centres, for 1980-81, disclosed an accounting procedure which effectively conceals, by understating, both the reported expenditures and the related revenues relating to the operations of these centres. This understatement was accomplished through a system of treating certain payments as revenue refunds and charging them against the receipts of the Centres. The result of this treatment is that expenditure reported under Subdivision 1307.05.02, Cultural Affairs, Encouragement of Cultural Activities, Production and Touring Program, as well as the related revenue reported under Subdivision 1307.20.01, Cultural Affairs, Related Revenue, Fees, Rentals, etc., have been understated for 1980-81.

While no final figure was determined by my auditors, a test examination of transactions totalling $449,402, out of total revenue refunds of $639,760, disclosed that payments totalling $281,615, were charged against Subdivision 1307.20.01 as revenue refunds, instead of being charged as expenditures under Subdivision 1307.05.02.

This procedure of charging expenditures as revenue refunds is, in my opinion, irregular, since it circumvents the financial control which the Legislature has over the amounts appropriated for such services. Furthermore, the amounts provided in the approved Estimates are voted on a gross basis and expenditures are to be reported in the Public Accounts on the same basis.

In my opinion, these payments should not have been treated as revenue refunds but should have been properly classified as expenditures and reported as such in the Public Accounts of the Province. Furthermore, the treatment of these expenditures as revenue refunds is not in accordance with Section 22 of The Financial Administration Act, 1973, which requires that no issue of public money shall be made out of the Consolidated Revenue Fund, except under authority of the Legislature.

57. **Complimentary tickets issued to certain patrons of the Arts and Culture Centre, St. John's.** My audit of the accounts of the Arts and Culture Centre, St. John's, for the fiscal year ended 31 March 1981, disclosed that the Centre followed a practice of issuing tickets free of charge to certain patrons of the Centre. The records of the Centre show that 3,210 complimentary tickets were issued for performances sponsored by the Centre during the year 1980-81. If these tickets had been sold, at the regular prices, the proceeds would have amounted to $20,717.

I am informed by the Director of Cultural Affairs, Department of Tourism, Recreation and Culture, that the issuing of complimentary tickets is a common practice followed in the operation of Arts and Culture Centres. There is, however, no written policy governing the issue of complimentary tickets by the Arts and Culture Centre, St. John's, neither is there specific written authority authorizing the Director of Cultural Affairs or the personnel at the Centre to issue tickets to certain patrons free of charge. I understand from the Director of Cultural Affairs, that tickets are only issued at his discretion, or at the discretion of designated employees of the Arts and Culture Centre.

The proceeds from the sale of tickets for performances sponsored by the Centre are public money, and are reported in the 1980-81 Public Accounts in Subdivision 1307.20.01, Cultural Affairs, Related Revenue, Fees, Rentals, etc. The issuing of complimentary tickets does not directly result in any revenue to the Province.

In my opinion, the issuing of complimentary tickets at the St. John's Arts and Culture Centre, or at any of the other Arts and Culture Centres throughout the Province, should (a) be authorized by the proper authority and (b) be subject to a written policy which clearly establishes the terms and conditions under which such tickets may be issued and who is eligible to receive them. The present practice of allowing the Director of Cultural Affairs and two of his staff to exercise their discretion as to who should receive complimentary tickets is, in my opinion, unsatisfactory.

58. **Understatement of revenue and expenditure.** My audit of the accounts of the Arts and Culture Centre, St. John's, disclosed that service charges relating to chargex and mastercharge accounts were deducted from the revenue deposited before it was transferred to the Newfoundland Exchequer Bank Account. This practice results not only in the reported revenue for the Arts and Culture Centre being understated, but also in the expenditure of public funds (for service charges) without any appropriation by the Legislature.

In my opinion, the handling of public money in this manner is in contravention of Section 13 of The Financial Administration Act, 1973, which requires that all public money, unless otherwise provided by statute, shall be paid promptly to the credit of the Consolidated Revenue Fund in the manner prescribed by the Treasury Board.

Department of Industrial Development

59. **Payment without legislative appropriation.** The approved Estimates of the Department of Industrial Development for the financial year 1980-81, under Subdivision 1503.04, provided for grants totalling $1,466,000 to Newfoundland Oceans Research and Development Corporation (NORDCO), as follows:

(i) Under Subdivision 1503.04.01, Operating Grant, $1,000,000;

(ii) Under Subdivision 1503.04.02, Equipment (Capital), $466,000.

My audit of expenditure charged to these subdivisions during 1980-81, disclosed that NORDCO claimed and was paid $1,171,047 ($871,047 in operating grant and $300,000 in equipment grant). In addition NORDCO claimed and was paid the $294,953 remaining in these subdivisions as funding to finance its prior years' deficits.

The approved Estimates contained no specific provision under Subdivision 1503.04 for funding to finance prior years' deficits of NORDCO. Therefore, in my opinion, the payment of $294,953 to NORDCO was an issue out of the Consolidated Revenue Fund without legislative appropriation and was made contrary to Section 29(a) of The Financial Administration Act, 1973.

Department of Transportation and Communications

60. **Weaknesses in control over expenditure for certain road-maintenance operations.** During 1980-81 the Department of Transportation and Communications engaged various companies and persons to provide road-maintenance through use of owner-operated equipment rented to the Department.

My review of the methods and procedures in effect in the Department during 1980-81 to acquire and pay for certain of these services disclosed that:

(i) Reference was not being made to the Government Purchasing Agency, Department of Public Works and Services, for acquisition of equipment rentals; therefore,

(a) public tenders were not being called as required by existing legislation;

(b) authorizing documentation, in the form of purchase orders or other contractual documents, was not completed and issued for the various projects undertaken. Such documents should set out details of the work to be done, the types of equipment to be used and the costs to be incurred.

(ii) Internal documentation prepared by the Department was not always adequately authorized and approved. In most cases the same individual hired the equipment, checked and approved the hours worked, and authorized the document which served as the Department's basis for payment. As well, the documents did not always set out sufficient details of the project to be undertaken.

I am not satisfied that the Department's control of expenditure on certain of its road-maintenance projects could be considered adequate during the fiscal year under audit. In my opinion, the Department should undertake a scrutiny of its procedures and implement corrective measures where necessary. It is essential, in particular, that public tenders always be called where required by legislation.

61. **Public tenders not called for certain roads construction projects.** The Public Tender Act, 1974, requires that, with certain exceptions, public tenders shall be called for the execution of public works. One of these exceptions applies where the work is an extension of an existing highway contract at the same unit price as that provided in the highway contract of which it constitutes an extension.

Since The Public Tender Act became law in 1974 the Auditor General has reported several instances of highway construction contracts being extended for work which, in his opinion, represented new projects and as such should have been individually tendered. My 1980-81 audit disclosed that this situation remains unchanged and contracts continue to be extended for new projects without public tender.

As a result of comments in the 1977-78 Report of the Auditor General to the House of Assembly, the Public Accounts Committee undertook an in-depth review of certain matters related to public tendering in the Department of Transportation and Communications. The findings of the Committee were reported to the House in its Report, tabled on 14 April 1980, on matters related to the 1977-78 financial year.

In the area of public tendering, Recommendation 13 of the Committee stated that:

"While the core meaning of the words "extension" and "unit price" (as used in subsection (c) of section 3 of the Public Tender Act) are clear on any reasonable reading of the Act, a statement of this meaning should be incorporated into the Act. As well, detailed rules for the application of this meaning should be provided in regulations made pursuant to Section 6 of the Act (which provides for the making of such regulations by Cabinet as are "necessary or expedient to ensure the carrying out of the provisions of this Act according to their true intent and meaning and to provide for deficiencies therein.")"

At the date of my audit (November 1981) the action recommended by the Public Accounts Committee had not been taken.

In my opinion, the intent of The Public Tender Act, 1974, will not be fully accomplished until measures are taken to deal with the continuing problem of extending existing highway contracts to include new projects that have not been tendered.

62. **Gratuitous payment of public funds and deficiencies in engineering design estimate.** During 1980-81, the Department of Transportation and Communications made a payment of $12,500 to a contractor as an out-of-court settlement of his claim against the Department. The claim related to a highway construction contract entered into in July 1977 and completed in September 1977.

My audit of matters related to this payment disclosed the following:

(i) The contract for the project was awarded in the total amount of $108,220, based on a public tender call.

(ii) The completed cost of the unit-price contract was $71,502, compared to the estimated cost of $108,220.

(iii) The underrun resulted when actual quantities of materials were significantly lower than quantities originally estimated.

(iv) The contractor contended that he was entitled to receive the difference, approximately $37,000, between the estimated cost of the project and the actual unit-price cost of the work completed.

(v) The Department of Justice expressed the opinion that there was no basis in law for such a claim because the Department's general contract specifically states that quantities are estimates only, and that quantities may be varied by the Department.

(vi) The Department refused the claim and the contractor decided to take the matter to court.

(vii) The trial did not proceed because the Department of Justice recommended and the Department of Transportation and Communications accepted a settlement involving a payment to the contractor of $12,500.

(viii) Treasury Board subsequently approved this arrangement.

My audit review of various correspondence on file at the Department, concerning this contract, disclosed that:

(i) The Department acknowledged that the design work was inadequate on this project. The estimate for the project was made up simply by an engineer driving to and looking at the location.

(ii) Certain road projects for their ridings were selected by Members of the House of Assembly "on a moments notice," and estimates and tenders had to be compiled on extremely short notice. It was also indicated that most of the work selected by the Members to be undertaken was not projects that the Department had anticipated and, hence, no design work had been completed.

In my opinion, the Province, in making this payment and deciding not to test its contractual arrangements with the contractor in court, has acknowledged deficiencies and, in my view, has set a precedent for future claims. These deficiencies, as outlined, caused the Province to pay $12,500 to a contractor for work not performed. This certainly is not a satisfactory situation and circumstances similar to those which gave rise to the payment should not be allowed to occur in future.

Department of Public Works and Services

63. **Payment of $640,894 without satisfactory verification that services had been received.** The Department of Public Works and Services signed agreements with two communications companies whereby the Department would make equal monthly payments to the companies for services rendered. As part of these agreements, the Department agreed to pay the balances in arrears owing to these companies. The balances in arrears were: $540,521 to one company as at 1 January 1980; $100,373 to the other company as at 31 March 1980.

My examination of these payments, which were made in the 1979-80 financial year, disclosed no evidence that the Department had reconciled the arrears reported by the companies with the invoices certified by departmental officials. Also, documentation could not be found in the Department to indicate that the various amounts making up the balances reported as outstanding were checked to ensure that they had not been previously paid.

In my opinion, the Department should not have paid the $640,894 before:

(i) agreeing the amounts which make up this total to certified invoices, thus ensuring that the services were actually received; and

(ii) checking to ensure that the amounts were not previously paid, thus avoiding the possibility of duplicate payments.

64. **Failure to reconcile payments of $516,750 with the actual charges incurred.** In paragraph 47 of his Report for the financial year 1979-80, the Auditor General reported that the audit of Subdivision 1803.04, Buildings, Rentals, Cleaning and Light, etc., disclosed that the Department of Public Works and Services failed to reconcile payments of $700,000 with the actual charges incurred for services supplied by a communications company.

These payments were made as per a letter of agreement with the communications company which provided services to all government Departments. The letter of agreement, which was dated 6 February 1980, provided that the Department would make equal monthly payments of $250,000 to the company. These payments were based upon the estimated annual cost of services provided by the company. The letter of agreement also stated that "The monthly payment . . . will be reviewed at the end of each quarter and if necessary adjusted nearer to actual billings."

The audit of Subdivision 1803.04, for the 1980-81 financial year, disclosed that the Department is in the process (as of 28 September 1981) of reconciling these payments to the actual charges incurred.

The audit also disclosed that a similar agreement was signed with another communications company for the 1980-81 financial year. Under this agreement the payments were set at $40,250 per month. This agreement also contains a clause stating that "The monthly payment . . . will be reviewed at the end of each quarter and if necessary adjusted nearer to actual billings."

As of the 28 September 1981, the Department had not completed a reconciliation of the payments to this company, made during the four quarters ended 31 March 1981, totalling $516,750, with the actual charges incurred and verified. Thus, the Department was not in a position, as of 28 September 1981, to state whether this account was overpaid or underpaid as at 31 March 1981.

In my opinion, the Department should immediately reconcile the payments made with the actual charges incurred for the 1980-81 financial year and ensure that such reconciliations are prepared on a current basis in future. Only by performing these reconciliations will the Department know if its accounts are overpaid or underpaid as of a specific date.

65. **Rental revenue of $40,566 not received.** The accounts receivable listing as at 31 March 1981, prepared by the Department of Public Works and Services, disclosed that the Department undercharged a tenant $40,565.60 over a period of 20 months.

In June 1979 the Department executed a lease to rent to a company a portion of a building for $2,704.37 per month. The lease stated that the Department would reduce the rental charge by as much as seventy-five percent, for the first seven years, providing the company met the following conditions:

(i) That leasehold improvements were previously approved by the lessor;

(ii) That leasehold improvements were to the structure of the building;

(iii) That the cost was subject to audit by the departmental representatives.

From August 1979 to March 1980 the Department did not invoice the company but merely recorded the revenue which was received. In the following twelve months, the company was invoiced $676.09 per month. This amount represents twenty-five percent of the agreed-upon monthly rental rate.

There was no record in the Department's files of any request by the company or approval by the Department for any leasehold improvements. Thus I could find no basis for the Department invoicing the company at $676.09 per month, as opposed to the rental rate of $2,704.37 provided for in the lease agreement. The result was that the Province did not receive rental income amounting to $40,565.60 over this 20-month period.

I note that the company is now being operated by a receiver and that the Department has made provision in its allowance for doubtful accounts for the full amount owed.

In my opinion, the handling of this account clearly indicates a lack of proper control over the recording and invoicing of rental revenue by this Department.

66. **Failure to tender publicly the purchases of two automobiles.** My audit of Subdivision 1806.02.03, Transport Services, Expenses, Vehicle Purchase, disclosed that the Department of Public Works and Services purchased two automobiles for $16,503.82 without calling public tenders.

The Department's requisitions to the Government Purchasing Agency specified the types of the automobiles required. In its request it asked that the purchases be expedited.

The Government Purchasing Agency on receiving the request decided that the purchases should be made on the basis of personal preference. On this basis, the Agency classified the purchases as being from the only known source and thus issued purchase orders to a supplier without calling public tenders.

The Department of Public Works and Services Act, 1973, states that "The Agency shall invite tenders for services . . . ." It also states that, as an exception, services need not be tendered if "there is only one available source of supply."

In my opinion, the Agency's classification of these purchases as "only known source" was improper and the automobiles required should have been purchased by public tender.

67. **Failure to comply with the Local Preference Policy.** In March 1980, a Minute of Council ordered the implementation of a Local Preference Policy. The prime objective of this Policy was to increase employment of local labour through the increased purchase of goods, by Government, from local manufacturers and processors.

A subsequent Minute of Council, issued in June 1980, ordered that the Policy would become effective from 1 August 1980. This Minute of Council also approved "The Guidelines and Instructions for the Implementation of the Local Preference Policy." It directed that, "Copies of the guidelines . . . be forwarded to each Department for implementation to the fullest extent possible pending any necessary amendments to The Public Tender Act and The Department of Public Works and Services Act."

My audit of Subhead 1803, Buildings, for the 1980-81 financial year, disclosed that the Department of Public Works and Services did not apply the Local Preference Policy to any of the audited contracts awarded after 1 August 1980. In fact, a senior official of the Department acknowledged that only one contract awarded after 1 August 1980 was evaluated using the local preference guidelines.

In my opinion, the Department of Public Works and Services had not, to 31 March 1981, implemented the Local Preference Policy to the fullest extent possible.

68. **Payment of $374,196 in rental and related expenditures for unoccupied space.** My audit of Subdivision 1803.04, Buildings, Rentals, Cleaning and Light, etc., disclosed that the Department of Public Works and Services signed an offer to lease 13,352 square feet of space on 5 June 1979 for a proposed museum. The Department also signed a lease with the landlord (but the lease was not dated). On 19 September 1979 the landlord advised the Department that the 60-day period allowed in the lease for fitting up the premises by the tenant would begin on 1 October 1979 and rental payments would commence on 1 December 1979.

From December 1979 to 28 January 1982 the Department of Public Works and Services paid $350,577 in rent and $23,619 in taxes for these premises, but only fitted up and occupied approximately 625 square feet of space as of November 1981.

In my opinion, the Department should have ensured that the rented space was fitted up as quickly as possible, rather than pay $374,196 for space which was essentially unoccupied for a 26-month period.

69. **Disputed application of spending authority — not resolved.** In his Reports for the past several years, the Auditor General expressed concern over the transfer of funds between the various distributions as shown in Appendix IV (Summary of General Services and Aircraft Charges by Department) to the Estimates. He reported that appropriations for certain general service charges were voted by the Legislature on the basis of the Estimates, and that Appendix IV of the approved Estimates showed details of the estimated expenditures which were applicable to the various Departments of Government.

The total amount voted for general service charges included provision for expenditures which, though initially made by and charged to the Department of Public Works and Services, were transferred, subsequently, to Heads of Expenditure of other Departments.

The audit of the Department of Public Works and Services for the 1980-81 financial year disclosed that the Department transferred, with Treasury Board approval, $2,068,700 from Subdivision 1803.05.01, Buildings, Construction and Alterations (Capital), to various current account expenditure subdivisions. These transfers included $233,700 to subdivisions which were not included in Appendix IV of the approved Estimates.

In prior years' Reports, the opinion stated by the Auditor General on the transfer of funds within Appendix IV has been as follows:

> "The transfer of funds within Appendix IV is a major weakness in the administration of budgetary controls relating to the approved Estimates. I am satisfied that some flexibility may be desirable in providing for general operations services common to all or most departments, but I am firmly opposed to the transferring of Capital funds (Buildings, Construction and Alterations) either between Heads or to non-capital uses. Such a practice must be opposed if parliamentary control over the spending of public money is to be upheld."

The Public Accounts Committee discussed this matter at its public hearings during 1980, but in its Report to the House of Assembly for the financial year ended 31 March 1979 it did not include any conclusions or recommendations on this matter. However, the Committee did indicate that it would be making recommendations to the House of Assembly at a later date.

In reporting on the foregoing matters, I note that in the Estimates for the 1981-82 financial year Appendix IV (Summary of General Services and Aircraft Charges by Department) has been omitted.

Department of Municipal Affairs and Housing

70. **Underpayment of grants to municipalities resulting from improper implementation of legislation.** For many years, the Province made grants to municipalities based upon the amounts of taxes collected by each municipality. This system of providing grants continued up to 31 March 1980, when it was replaced by a new system.

Under the new system, which came into effect 1 April 1980, annual grants to municipalities are comprised mainly of: (a) General Municipal Assistance Grants, and (b) Tax Incentive Grants. These grants are provided for under The Municipal Grants Act, Chapter 98 of the Statutes of Newfoundland, 1977, and The Municipal Grants Act Regulations, 1980, which are administered by the Department of Municipal Affairs and Housing.

My audit of the accounts of the Department of Municipal Affairs and Housing disclosed that grants totalling $3,652,574, relating to the period 1 January 1980 to 31 March 1980, and paid to municipalities during 1979-80 under the former grant system, were deducted from grants due to municipalities under the new grant system. I understand that the Department's rationale for making these deductions was that the grants paid relating to the period 1 January 1980 to 31 March 1980 were considered to be advances against the grants payable to municipalities under the new system, which became effective 1 April 1980.

In my opinion, The Municipal Grants Act did not give the Department of Municipal Affairs and Housing any authority to recover grants due and paid to municipalities under its old system from grants due and payable under its new system. The action by the Department in deducting these grants was, in my opinion, not in accordance with The Municipal Grants Act, and resulted in grants to municipalities under that Act being underpaid by $3,652,574.

71. **General Municipal Assistance Grants not calculated in accordance with the Regulations.** The Municipal Grants Act, which came into force on 1 April 1980, provides for the making of annual grants to municipalities, among these grants being the General Municipal Assistance Grant. This grant is composed of three amounts known as (a) the Basic Allocation (b) the Social Assistance Supplement and (c) the Local Road Mileage Supplement. Regulations entitled The Municipal Grants Act Regulations, 1980, prescribe the method of calculating the General Municipal Assistance Grants that are to be paid annually under the Act.

Regulation 4(a) of The Municipal Grants Act Regulations, 1980, prescribes a Basic Allocation, calculated on a per capita basis, for people residing in the municipality on the first day of the current financial year. Therefore, the Basic Allocation of the grants for 1980 should have been based upon the number of people residing in the municipality on 1 January 1980. Audit disclosed, however, that the Department of Municipal Affairs and Housing used the 1976 Statistics Canada census figures for purposes of calculating the Basic Allocation.

Regulation 4(b) of The Municipal Grants Act Regulations, 1980, prescribes a Social Assistance Supplement, based upon the social assistance paid to the residents of the municipality during the previous financial year. Therefore, the Social Assistance Supplement of the grants for 1980 should have been based upon the amount of social assistance paid to residents of the municipalities during 1979. Audit disclosed, however, that the Department of Municipal Affairs and Housing used the social assistance payments made during 1975-76, increased by 31 percent, for purposes of calculating the Social Assistance Supplement of the 1980 General Municipal Assistance Grants.

In my opinion, the Department of Municipal Affairs and Housing did not comply with the provisions of The Municipal Grants Act Regulations, 1980, when calculating the Basic Allocation and the Social Assistance Supplement of the 1980 General Municipal Assistance Grants.

72. **General Municipal Assistance Grants to certain municipalities underpaid.** Section 4(b) of The Municipal Grants Act Regulations, 1980, prescribes a Social Assistance Supplement as a component of the General Municipal Assistance Grants to be paid annually to municipalities, under The Municipal Grants Act. This supplement is to be calculated on the basis of a $1. grant for every $20. social assistance paid to the residents of the municipality during its previous financial year.

Social assistance payments are recorded by the Department of Social Services according to settlement rather than municipality. In some cases, there are a number of settlements comprising a municipality. In order to determine the amount of social assistance paid to the residents of a municipality, the Department of Municipal Affairs and Housing had to match settlements to municipalities.

My audit disclosed numerous discrepancies as a result of this matching process. All settlements comprising a particular municipality were not included in the related municipality for purposes of computing the grant. This resulted in the social assistance payments used for purposes of the grant being understated, which in turn resulted in the Social Assistance Supplement of the General Municipal Assistance Grant being understated.

My audit test of 28 municipalities, out of a total of approximately 310, disclosed that for seven municipalities the social assistance component of the 1980 General Municipal Assistance Grants, as computed by the Department of Municipal Affairs and Housing, did not include all of the settlements comprising these municipalities. Consequently, the General Municipal Assistance Grants paid to these seven municipalities for 1980 were understated. The total understatement as computed by my auditor was $101,573. The Department of Municipal Affairs and Housing did not make any adjustments to rectify these understated grants.

Audit also disclosed one particular instance (separate from the above) where the Social Assistance Supplement of the 1980 General Municipal Assistance Grant was adjusted (increased) by $50,868, when it was determined that the supplement, as originally computed, did not take into account all the settlements comprising the municipality.

In my opinion, the Department of Municipal Affairs and Housing did not take proper steps to ensure that the social assistance components of certain General Municipal Assistance Grants included all the settlements comprising certain municipalities. The result was that grants to a number of municipalities for 1980 were underpaid.

73. **Interim Subsidy Grants to municipalities not calculated in accordance with the Regulations.** Regulation 6(1) of The Municipal Grants Act Regulations, 1980, provides that no municipality shall, for the 1980 financial year, receive less money by way of total municipal grants from the Government than it received from the Government by way of municipal grants for the 1979 financial year (financial year means the period from 1 January to 31 December). Regulation 6(2) provides that "The additional grant paid to a municipality under Subsection (1) shall be reduced by 20% each year following the 1980 financial year." The additional grants under Regulation 6 are referred to as Interim Subsidy Grants.

For the financial year 1980, the Department of Municipal Affairs and Housing computed the Interim Subsidy Grants by comparing, (a) the total revenue grants and municipal road-maintenance grants for 1979 with (b) the total of the General Municipal Assistance and Tax Incentive Grants for 1980. If the total grants paid under (a) exceeded those paid under (b), an Interim Subsidy Grant equal to the excess of the total 1979 grants over the total 1980 grants was paid to the municipality. Based upon these calculations, the Department of Municipal Affairs and Housing determined that one hundred and sixteen (116) municipalities were entitled to receive Interim Subsidy Grants, totalling $1,376,394, for the financial year 1980.

My audit disclosed, however, that some municipalities were also paid other types of grants for 1979 and 1980 financial years, but these grants were not included in the calculations prepared by the Department of Municipal Affairs and Housing when computing the Interim Subsidy Grants to be paid to municipalities for 1980.

In my opinion, the exclusion of certain municipal grants from the calculation of Interim Subsidy Grants is not in accordance with Regulation 6(1) of The Municipal Grants Act Regulations, 1980. The effect of such exclusions upon the total Interim Subsidy Grants paid for 1980 was not determined by my auditors because of the difficulties involved and the time required to obtain the necessary information.

While reporting the foregoing on Interim Subsidy Grants, I note that, in paragraph 78 of my Report I have reported that Regulation 6 of The Municipal Grants Act Regulations, 1980, is, in my opinion, ultra vires the authority of the Lieutenant-Governor in Council under The Municipal Grants Act.

74. **Failure to comply with Section 5 of The Municipal Grants Act.** The Municipal Grants Act, which came into force on 1 April 1980, provides, among other things, for a Tax Incentive Grant to be paid annually to municipalities. Section 5 of the Act stipulates that: "In the case of the Cities of Corner Brook and St. John's, the amount of the Tax Incentive Grant shall be decreased by the provincial expenditures in respect of the operating costs of police, fire protection and public transportation for each city."

The 1980 Tax Incentive Grant for the City of Corner Brook was computed by the Department of Municipal Affairs and Housing to be $1,619,093. My audit disclosed, however, that the full amount of the grant, i.e., $1,619,093, was paid and charged to the 1980-81 expenditures of the Province with no reduction being made for those provincial expenditures referred to in Section 5 of The Municipal Grants Act. Audit further disclosed that the Province paid $1,283,184 for police services rendered during the period 31 March 1980 to 31 March 1981, to the City of Corner Brook.

In my opinion, the Department of Municipal Affairs and Housing failed to carry out the requirement of Section 5 of The Municipal Grants Act in computing the Tax Incentive Grant paid to the City of Corner Brook for 1980. As a result, the City of Corner Brook was overpaid approximately $1,283,184.

My audit also disclosed that the 1980 Tax Incentive Grant for the City of St. John's was computed by the Department of Municipal Affairs and Housing to be $4,636,972. This amount was not paid to the City (as at date of audit, October 1981) but was withheld by the Department of Municipal Affairs and Housing, pending a final decision on the amount to be deducted under Section 5 of The Municipal Grants Act.

75. **Overpayment of 1980 General Municipal Assistance Grant not recovered.** Section 3 of The Municipal Grants Act provides that each municipality will be paid an annual General Municipal Assistance Grant as prescribed by regulation. The Municipal Grants Act Regulations, 1980, prescribe the annual General Municipal Assistance Grants that shall be paid to municipalities under the provisions of the Act. These regulations specify the three components comprising the grant to be (a) Basic Allocation, (b) Social Assistance Supplement, and (c) Local Road Mileage Supplement.

The Regulations also specify that the Local Road Mileage Supplement is to be calculated on the basis of $2,000 per kilometer in length of the local roads within the community on the first day of the current financial year.

The Local Road Mileage Supplement of the 1980 General Municipal Assistance Grant for the City of Corner Brook was initially calculated to be $253,800, based upon 126.9 kilometers of local roads within the City on 1 January 1980.

The Local Road Mileage Supplement of the 1981 General Municipal Assistance Grant for the City of Corner Brook was initially calculated as $212,400, based upon 106.2 kilometers of local roads within the City as of 1 January 1981.

The Department of Municipal Affairs and Housing was subsequently advised by the City of Corner Brook that local road mileage within the City amounted to 115.1 kilometers. Based upon this, the 1981 supplement should have been $230,200, instead of $212,400; similarly, the 1980 supplement should have been $230,200 instead of $253,800. The results of these calculations showed an underpayment of $17,800, relating to the Local Road Mileage Supplement for 1981 and an overpayment of $23,600, relating to the 1980 Local Road Mileage Supplement.

The amount of the grant underpaid relating to 1981 was subsequently paid to the City of Corner Brook. However, the overpayment of $23,600, relating to 1980, has not been recovered and apparently no recovery is intended by the Department of Municipal Affairs and Housing.

In my opinion:

(i) The overpayment of $23,600 relating to the 1980 General Municipal Assistance Grant, paid to the City of Corner Brook, should have been recovered from grants subsequently paid to that City.

(ii) The amount of the overpayment should have been set up as a receivable in the accounts of the Province as at 31 March 1981.

76. **Understatement of reported expenditures and related revenues.** The audit of Subdivisions 1903.03.08, 1903.03.09, and 1903.03.10, Local Government Administration: Operating Grants: Interim Subsidy; General Municipal Assistance; and, Tax Incentive, respectively, disclosed an accounting procedure which effectively understated both the reported expenditures and the reported related revenues relating to municipal grants paid during 1980-81. This understatement resulted from the netting of certain recoveries of grants paid to municipalities in 1979-80 against certain other grants paid to municipalities during 1980-81. The results were that expenditures for 1980-81, reported under Subdivisions 1903.03.08, 1903.03.09, and 1903.03.10, as well as related revenue, reported under Subdivision 1903.20.01, Local Government Administration: Related Revenue: Recoveries — Municipalities, were understated by $3,651,416.

The procedure of netting recoveries against expenditures and reporting only the net expenditures in the Public Accounts is, in my opinion, irregular. It circumvents the financial control which the Legislature has over the amounts appropriated annually for such expenditures. It also results in both the reported expenditures and related revenues being understated.

In my opinion, the expenditures for municipal grants should have been reported in the Public Accounts at the gross amounts, while any recoveries should have been reported as related revenue.

Further reference is made to the above-mentioned recoveries in paragraph 70 of my Report.

77. **Inconsistent accounting treatment for current and capital account expenditure.** In prior years, grants from the Department of Municipal Affairs and Housing to municipalities to meet principal and interest payments due on loans for recreational facilities were charged as capital account expenditure of the Province.

For 1980-81, this accounting treatment was changed. Amounts totalling $237,357, representing the interest portion of such grants, were charged to current account expenditure, and amounts totalling $68,009, representing the principal portion of the grants, were charged to capital account expenditure.

If these grants had been recorded as in prior years, current account expenditure would have been decreased by $237,357, and capital account expenditure would have been increased by the same amount.

The accounting treatment in 1980-81, with which I agree, is not consistent with that followed in prior years for grants for recreational facilities. This change in accounting treatment has now been disclosed in a note to the Statement of Expenditure and Related Revenue of the Department.

I note that the appropriation provided by the House of Assembly (for both interest and principal) was classified as capital account expenditure.

78. **Regulation ultra vires The Municipal Grants Act.** The Municipal Grants Act authorizes the Minister of Municipal Affairs and Housing to pay annually certain types of grants, as specified in the Act, to municipalities. The amounts of these grants are prescribed by regulation entitled The Municipal Grants Act Regulations, 1980, issued under authority of Section 12 of the Act.

Regulation 6 of these Regulations states:

> "(1) Notwithstanding these Regulations, no municipality shall for the 1980 financial year, receive less money by way of total municipal grants from the Government than it received from the Government by way of municipal grants for the 1979 financial year.
>
> (2) The additional grant paid to a municipality under Subsection (1) shall be reduced by 20% each year following the 1980 financial year."

There is no provision in The Municipal Grants Act which gives authority to make additional grants to municipalities as set out in Regulation 6 of The Municipal Grants Act Regulations, 1980. Therefore, in my opinion, Regulation 6 is ultra vires the authority given to the Lieutenant-Governor in Council by Section 12 of The Municipal Grants Act.

OTHER COMMENTS

79. **Accumulated deficits of the Newfoundland Medical Care Commission.** The audited financial statements of the Newfoundland Medical Care Commission, for the year ended 31 March 1981, show a net deficit of $4,587,529 due from the Province of Newfoundland. This amount comprises deficits accumulated over the years as follows: 1978, $2,609,616; 1979, $213,411; 1980, $1,399,012; and 1981, $365,490.

Section 29 of The Newfoundland Medical Care Insurance Act, Chapter 265 of The Revised Statutes of Newfoundland, 1970, as amended, states, "The Lieutenant-Governor in Council shall, from moneys voted by the Legislature, make available and pay to the Commission from time to time such additional funds as may be necessary for the proper carrying out of its powers, functions and duties."

The audit of the accounts of the Department of Health for the year ended 31 March 1981 disclosed that moneys voted by the Legislature and paid to the Commission, for the fiscal year 1980-81, totalled $38, 546,000. However, no portion of these moneys was designated as relating to the accumulated deficits of the Newfoundland Medical Care Commission.

In my opinion, the Lieutenant-Governor in Council has not been complying with the requirement as set out in Section 29 of The Newfoundland Medical Care Insurance Act, since the Commission has not been paid the additional funds that are needed to allow it to discharge its liabilities represented by the accumulated deficits. Also, I am concerned that these deficits have been accumulated in the accounts of the Commission, which is an agency of the Province.

I note that, as a result of my representation, the liability of $4,587,529 has been recorded in the Public Accounts of the Province as at 31 March 1981.

80. **Failure to submit Adult Occupational Training Cost Data promptly.** The Province of Newfoundland and the Government of Canada are parties to an agreement under the Federal Adult Occupational Training Act. In February 1977 an extension of the previous agreement was signed to cover the 1977-78 financial year. A new agreement, signed in July 1978, was executed for the financial years 1978-79, 1979-80 and 1980-81.

Under these agreements, the Government of Canada agreed to provide the Province with specified minimum sums of monies each year for the purchase of Institutional Training, including Apprentice Training, offered by the Province, and for the payment of administrative costs incurred by the Province in support of Industrial Training. The amounts received from the Government of Canada for each of the financial years which are of concern to me are as follows:

Financial Year	Amount
1977-78	$13,145,569
1978-79	$13,313,066
1979-80	$13,881,608

Under the agreements, the Province is required to provide the Government of Canada, within twelve months of the end of each financial year, with certification of actual costs incurred in providing the various training courses purchased by the Government of Canada. This cost data for 1977-78 and 1978-79 is to be prepared in four separate sections from four different sources. In the financial year 1979-80 there is a fifth section. The sections are the College of Trades and Technology; the College of Fisheries, Navigation, Marine Engineering and Electronics; the Vocational Schools (prepared by the Department of Education); Apprenticeship Training; and, for 1979-80, the Bay St. George Community College. Each section of this data is submitted to the Auditor General for certification prior to submission to the Government of Canada. After all of the sections are completed by the parties concerned and certified by the Auditor General, the Department of Education prepares a schedule of consolidated actual costs which it compares with the amounts received from the Government of Canada. This indicates whether the Province was underpaid or overpaid.

In paragraph 51 of his 1979-80 Report, the Auditor General stated that, as at 31 October 1980, the cost data for 1977-78 had not been prepared for the College of Trades and Technology and for Apprenticeship Training. The Vocational Schools' cost data for that year was submitted in September 1980. I now report that the Vocational Schools' cost data was certified in June 1981. The cost data for the College of Trades and Technology and for Apprenticeship Training has yet to be submitted to my Department for audit and is presently (30 September 1981) thirty months overdue to the Government of Canada.

It was indicated in last year's Report that, as of 31 October 1980, the cost data for 1978-79 had not yet been prepared. The Vocational Schools' cost data was subsequently received in April 1981 and certified in September 1981. The cost data for the College of Trades and Technology; the College of Fisheries, Navigation, Marine Engineering and Electronics; and Apprenticeship Training, has yet (30 September 1981) to be submitted to me for audit. This cost data is now eighteen months overdue to the Government of Canada.

As of 30 September 1981, the cost data for each of the five sections for 1979-80, which was due to the Government of Canada on or before 31 March 1981, had not been prepared and was already six months late.

It is of great concern to me that the Province is not conforming with the terms of the agreements which specify that cost data is required to be submitted to the Government of Canada within twelve months of the end of each financial year. I am equally concerned that while progress is being made in the timely preparation of the Vocational Schools' cost data, other sections are showing no indication of improvement, in spite of the fact that this situation was reported upon by the Auditor General in his Reports for the last three consecutive years.

ACKNOWLEDGEMENTS

It is indeed a pleasure for me to express, on behalf of myself and all staff of the Department of the Auditor General, my sincere thanks to officials of Crown Corporations, Government Departments, Municipalities and other entities which I audited, for their understanding, co-operation and assistance during the course of the audits.

I wish particularly to express deep appreciation to the Deputy Auditor General, J.E. Richards, who carried out the duties and functions of the Auditor General from 26 August 1980 until my appointment on 13 May 1981, in a most efficient and commendable manner.

Finally, again, may I express my sincere gratitude for the faithful performance of their duties by all employees of the Department during the past year.

J.F. McGrath, C.A.,
Auditor General.

12 February 1982.

APPENDICES

Appendix

I Other Financial Information

- Summary of revenue, expenditure and related revenue by departments
- Receipts and payments after the close of the financial year
- Comparison of out-turn for the year with estimates approved by the Legislature
- Cash requirements, 1980-81
- Statement of changes in financial position
- Comparison of actual and estimated revenue, expenditure and related revenue
- Appropriations by the Legislature
- Unexpended balances of appropriations

II Crown Corporation and Other Audits

- Crown Corporations, Boards, Authorities and Sundry Funds
- School Tax Authorities
- Municipalities
- City

III Recommendations

- "Improving Accountability — Canadian Public Accounts Committees and Legislative Auditors."

Appendix I

OTHER FINANCIAL INFORMATION

Summary of revenue, expenditure and related revenue by departments

The summary for the year ended 31 March 1981, as prepared by the Department of Finance, and included in the Public Accounts as Statement No. 3, shows an out-turn for the year as follows:

	(thousands of dollars)
Total expenditure (net)	1,312,832
Total current account revenue	1,226,167
Excess of expenditure (net) over revenue for the year	86,665

The excess of expenditure over revenue for the year comprises net expenditure of $135,856,000 on capital account, and the surplus of $49,191,000 on current account.

A recapitulation of the totals shown in the summary of revenue, expenditure and related revenue by department is as follows:

Current Account

	(thousands of dollars)		
Revenue			1,226,167
Expenditure (net):			
Consolidated fund services (gross)	213,790		
Less: Related revenue	17,478	196,312	
Supply services (gross)	1,096,228*		
Less: Related revenue	115,564	980,664	1,176,976
Surplus on current account			49,191

Capital Account

	(thousands of dollars)	
Expenditure (net):		
Consolidated fund services		859
Supply services (gross)	179,928*	
Less: Related revenue	44,931	134,997
Net expenditure on capital account		135,856
Excess of net expenditure on capital account over surplus on current account		86,665

*Includes some statutory payments.

Receipts and payments after the close of the financial year

The amounts for related revenue on current and capital accounts include $9,022,000, representing amounts received from the Government of Canada during April 1981 and relating to the financial year 1980-81. Such inclusion is permitted by Section 16 of The Financial Administration Act, 1973.

The amounts of current and capital account expenditure include $55,732,000, representing payments made subsequent to 31 March 1981 relating to the financial year 1980-81. Such inclusion is permitted by Section 24 of The Financial Administration Act, 1973.

Comparison of out-turn for the year with estimates approved by the Legislature

The following summary compares actual amounts for the financial year 1980-81 with amounts included in Statement 1 (Summary of Borrowing Requirements and Sources of Funds) of the Estimates approved by the Legislature.

	Estimates	**Actual**	**Increase (Decrease)**
	(thousands of dollars)		
BUDGETARY REQUIREMENTS:			
Current Account:			
Gross Expenditure	1,327,858	1,310,018	(17,840)
Related Revenue	134,089	133,042	(1,047)
Net Expenditure	1,193,769	1,176,976	(16,793)
Revenue	1,206,278	1,226,167	19,889
Surplus	12,509	49,191	36,682
Capital Account:			
Gross Expenditure	223,630	180,787	(42,843)
Related Revenue	70,444	44,931	(25,513)
Net Expenditure	153,186	135,856	(17,330)
Total Budgetary Requirements	140,677	86,665	(54,012)
DEBT RETIREMENT:			
Redemptions	121,910	116,736	(5,174)
Sinking Funds	27,084	26,233	(851)
Total Debt Retirement	148,994	142,969	(6,025)
Total Budgetary Requirements and Debt Retirement	289,671	229,634	(60,037)

Cash requirements, 1980-81

The Estimates projected total cash requirements from borrowings for 1980-81 to be $289,671,000. The estimates and the actual borrowings are compared below:

	Estimates	Actual	Increase (Decrease)
	(thousands of dollars)		
General Borrowings	241,000	212,351	(28,649)
Canada Pension Plan	44,000	42,645	(1,355)
Government of Canada and other sources	4,671	2,739	(1,932)
	289,671	257,735	(31,936)

The funds provided from borrowings, $257,735,000, were more than the total cash requirements for actual net expenditures (payments) of $229,634,000 (comprising budgetary payments, $86,665,000 and debt retirement and sinking fund payments of $142,969,000). The difference of $28,101,000 was applied mainly to increase temporary investments.

Statement of changes in financial position

The following tabulation shows the changes in financial position for the year ended 31 March 1981.

Funds provided by: (Note 1)	(thousands of dollars)	
Cash surplus on current account:		
Surplus on current account per Public Accounts, Statement No. 3		49,191
Increase in bank overdraft — Bank of Montreal		19,956
Issue of debentures — general borrowings	212,351	
— Canada Pension Plan	42,645	254,996
Canada Mortgage and Housing Corporation loans		2,739
Gain on redemption of bond issues		1,289
Excess sinking funds on redeemed bond issues returned to the Province		3,933
Redeposit of prior year's expenditure cheques		121
Big game licences — deferred revenue		371
		332,596

Funds used for:

		(thousands of dollars)	
Net expenditure on capital accounts:			
Net expenditure per Public Accounts, Statement No. 3			135,856
Temporary investment purchases (net of sales) Term deposits			48,921
Treasury bill redemptions (net of issues)			436
Debt redemption	— debenture debt	72,999	
	— C.M.H.C. loans	180	
	— DREE loans	1,526	74,705
Sinking fund payments			26,233
Exchange losses			41,554
Amortization of unrealized foreign exchange losses			4,410
Big game licences — prior year's deferred revenue			232
Close out of old bank accounts			7
Excess of suspense account payments over receipts			242
			332,596

Note 1: Funds refer to Bank of Montreal, bank account.

Comparison of actual and estimated revenue, expenditure and related revenue

The summary below shows differences, in total, between actual and estimated amounts for the year and the number of departments and sources in which they occurred:

	Actual more than estimated		Actual less than estimated	
	No. of Sources	**Amount** (thousands of dollars)	**No. of Sources**	**Amount** (thousands of dollars)
Current account revenue	2	22,130	1	2,241
	No. of Depts.		**No. of Depts.**	
Expenditure:				
Current Account	7	10,007	12	27,847
Capital Account	2	14,018	14	56,861
Related Revenue:				
Current Account	9	6,317	10	7,363
Capital Account	4	1,502	8	27,015

Table 1 shows differences by source, and Tables 2 to 5 show differences by department.

TABLE 1

Current Account Revenue

(thousands of dollars)

Source	Estimates	Actual	Increase (Decrease)
Government of Canada	555,348	574,602	19,254
Provincial Tax Sources	577,760	575,519	(2,241)
Other Provincial Sources	73,170	76,046	2,876
	1,206,278	1,226,167	19,889

Note

1. Actual revenue from Provincial Tax Sources is net of refunds of taxes totalling $1,059,688.

TABLE 2

Current Account Expenditure

(thousands of dollars)

Head	Department	Estimates	Actual	Increase (Decrease)
I	Consolidated Fund Services	222,197	213,790	(8,407)
	Supply Services:			
II	Legislative	5,245	5,083	(162)
III	Executive Council	5,134	5,074	(60)
IV	Finance	16,726	16,987	261
V	Labour and Manpower	7,790	7,724	(66)
VI	Education	345,256	342,393	(2,863)
VII	Justice	40,501	42,347	1,846
VIII	Social Services	127,512	128,340	828
IX	Consumer Affairs and Environment	3,397	3,426	29
X	Health	294,790	300,979	6,189
XI	Mines and Energy	43,778	36,553	(7,225)
XII	Forest Resources and Lands	21,906	16,959	(4,947)
XIII	Tourism, Recreation and Culture	21,928	21,992	64
XIV	Fisheries	12,198	11,080	(1,118)
XV	Industrial Development	5,606	4,429	(1,177)
XVI	Rural, Agricultural and Northern Development	22,137	21,322	(815)
XVII	Transportation and Communications	62,021	61,166	(855)
XVIII	Public Works and Services	16,598	16,446	(152)
XIX	Municipal Affairs and Housing	53,138	53,928	790
		1,105,661	1,096,228	(9,433)
		1,327,858	1,310,018	(17,840)

TABLE 3

Current Account Related Revenue

(thousands of dollars)

Head	Department	Estimates	Actual	Increase (Decrease)
I	Consolidated Fund Services	16,899	17,478	579
	Supply Services:			
II	Legislative	206	211	5
III	Executive Council	40	12	(28)
IV	Finance	306	338	32
V	Labour and Manpower	4,876	4,441	(435)
VI	Education	18,267	16,810	(1,457)
VII	Justice	1,369	1,614	245
VIII	Social Services	50,413	52,030	1,617
IX	Consumer Affairs and Environment	80	78	(2)
X	Health	6,914	8,724	1,810
XI	Mines and Energy	3,883	4,656	773
XII	Forest Resources and Lands	8,858	5,676	(3,182)
XIII	Tourism, Recreation and Culture	1,380	1,319	(61)
XIV	Fisheries	3,026	1,811	(1,215)
XV	Industrial Development	1,180	896	(284)
XVI	Rural, Agricultural and Northern Development	10,370	10,148	(222)
XVII	Transportation and Communications	3,295	4,299	1,004
XVIII	Public Works and Services	853	1,105	252
XIX	Municipal Affairs and Housing	1,873	1,396	(477)
		117,189	115,564	(1,625)
		134,088	133,042	(1,046)

TABLE 4

Capital Account Expenditure

(thousands of dollars)

Head	Department	Estimates	Actual	Increase (Decrease)
I	Consolidated Fund Services	1,134	859	(275)
	Supply Services:			
IV	Finance	13,264	10,154	(3,110)
VI	Education	34,260	40,278	6,018
VII	Justice	5,348	3,685	(1,663)
VIII	Social Services	611	108	(503)
IX	Consumer Affairs and Environment	2,812	1,151	(1,661)
X	Health	10,343	9,329	(1,014)
XI	Mines and Energy	5,175	4,970	(205)
XII	Forest Resources and Lands	4,494	1,554	(2,940)
XIII	Tourism, Recreation and Culture	12,075	7,855	(4,220)
XIV	Fisheries	21,892	12,121	(9,771)
XV	Industrial Development	4,066	12,066	8,000
XVI	Rural, Agricultural and Northern Development	7,956	5,690	(2,266)
XVII	Transportation and Communications	68,721	52,752	(15,969)
XVIII	Public Works and Services	6,541	5,420	(1,121)
XIX	Municipal Affairs and Housing	24,938	12,795	(12,143)
		222,496	179,928	(42,568)
		223,630	180,787	(42,843)

TABLE 5

Capital Account Related Revenue

(thousands of dollars)

Head	Department	Estimates	Actual	Increase (Decrease)
	Supply Services:			
IV	Finance	3,790	4,942	1,152
VIII	Social Services	53	54	1
X	Health	736	673	(63)
XI	Mines and Energy	338	175	(163)
XII	Forest Resources and Lands	3,750	724	(3,026)
XIII	Tourism, Recreation and Culture	8,068	4,458	(3,610)
XIV	Fisheries	6,561	4,338	(2,223)
XV	Industrial Development	2,472	2,540	68
XVI	Rural, Agricultural and Northern Development	6,667	4,789	(1,878)
XVII	Transportation and Communications	30,307	18,457	(11,850)
XVIII	Public Works and Services	20	301	281
XIX	Municipal Affairs and Housing	7,682	3,480	(4,202)
		70,444	44,931	(25,513)

Appropriations by the Legislature

Appropriations provided by the Legislature for the financial year 1980-81 including supplementary supply, totalled $1,368,022,840 as follows:

	(thousands of dollars)
The Interim Supply Act, 1980, enacted 27 March 1980	299,950
The Supply Act, 1980, enacted 6 June 1980	1,035,277
The Supplementary Supply Act, 1981, enacted 14 July 1981	32,796
Total appropriations	1,368,023

Subsequent to enactment of The Supply Act of 1980, spending authority for amounts totalling $32,795,600 was provided by special warrants issued by the Lieutenant-Governor under the provisions of Section 28 of The Financial Administration Act, 1973. In all, eighteen special warrants were issued up to March 1981: seventeen under Section 28(2), and one under Section 28(3) of the Act. The Supplementary Supply Act, 1981 sanctioned the amounts provided by the special warrants.

Unexpended balances of appropriations

Of the $1,368,022,840 appropriations available in respect of expenditure for the year ended 31 March 1981, $97,349,119 remained unexpended.

In compliance with Section 24 of The Financial Administration Act, 1973, balances comprising this amount lapsed and were written off.

The lapsed balances are tabulated below by department.

Head	Department	Current Account	Capital Account	Total
		(thousands of dollars)		
I	Consolidated Fund Services	12,661	—	12,661
II	Legislative	182	—	182
III	Executive Council	323	—	323
IV	Finance	246	3,111	3,357
V	Labour and Manpower	161	—	161
VI	Education	(4,394)	10,796	6,402
VII	Justice	282	391	673
VIII	Social Services	995	(1)	994
IX	Consumer Affairs and Environment	(23)	1,661	1,638
X	Health	(181)	1,194	1,013
XI	Mines and Energy	6,796	542	7,338
XII	Forest Resources and Lands	210	6,690	6,900
XIII	Tourism, Recreation and Culture	(7,674)	11,982	4,308
XIV	Fisheries	(5,492)	16,333	10,841
XV	Industrial Development	6,739	(5,528)	1,211
XVI	Rural, Agricultural and Northern Development	(5,518)	8,933	3,415
XVII	Transportation and Communications	714	18,297	19,011
XVIII	Public Works and Services	(12,457)	16,760	4,303
XIX	Municipal Affairs and Housing	(7,207)	19,825	12,618
		(13,637)	110,986	97,349

Appendix II

CROWN CORPORATION AND OTHER AUDITS

Crown Corporations, Boards, Authorities and Sundry Funds:

Atlantic Provinces Education Authority*
Bay St. George Community College
Bell Island Hospital Building Corporation Limited
B.L.C. Building Corporation Limited
Canada Games Park Commission
Centre for Cold Ocean Resources Engineering
College of Fisheries, Navigation, Marine Engineering and Electronics
College of Fisheries, Navigation, Marine Engineering and Electronics Pension Fund
College of Trades and Technology
Corner Brook Hospital Building Corporation Limited
Farm Development Loan Board
Feed Mill Building Company Limited
Fisheries Loan Board
Gander Development Corporation
Gander Hospital Corporation Limited
Grace Hospital Extension Corporation Limited
Grand Falls Hospital Building Corporation
Harmon Corporation
Hotel Buildings Limited
Newfoundland Legal Aid Commission
Members of House of Assembly Pension Fund
Memorial University of Newfoundland
Memorial University of Newfoundland Building Corporation Limited
Mooring Cove Building Company Limited
Motor Vehicle Accident Security Account
Newfoundland and Labrador Arts Council
Newfoundland and Labrador Computer Services Limited
Newfoundland and Labrador Housing Corporation
Newfoundland Farm Products Corporation
Newfoundland Government Building Corporation Limited
Newfoundland Industrial Development Corporation
Newfoundland Liquor Corporation
Newfoundland Liquor Licencing Board
Newfoundland Medical Care Commission

Newfoundland Municipal Financing Corporation
Newfoundland Public Libraries Board
Northern Hospitals Building Corporation Limited
Nurses Training School Building Corporation Limited
Pepperrell Hospital Reconstruction Corporation Limited
Power Distribution District of Newfoundland and Labrador
Provincial Advisory Council on the Status of Women — Newfoundland and Labrador
Public Accountants Licensing Board
Registrar of the Supreme Court
St. John's Housing Authority
St. John's Housing Corporation
St. John's Infirmary Building Corporation Limited
St. John's Memorial Stadium Commission
St. John's Residential Tenancies Board
Technical College Building Corporation Limited
The School Insurance Committee
Vocational Schools (Western) Building Corporation Limited

*Joint audit with the Auditors General of New Brunswick, Nova Scotia and Prince Edward Island.

School Tax Authorities:

Burin Peninsula
Central Labrador
Channel-Port aux Basques
Corner Brook
Deer Lake
Exploits Valley
Ferryland
Green Bay
Labrador West
Notre Dame
Placentia-St. Mary's
Port au Port
Regional District #1
St. Barbe South
St. John's
Trinity-Conception
Vinland

Municipalities:

Admiral's Beach
Arnold's Cove
Avondale
Badger
Bay Roberts
Bonavista
Branch
Brigus
Carbonear
Chance Cove
Chapel Arm
Clarke's Beach
Colliers
Come by Chance
Conception Bay South
Conception Harbour
Cox's Cove
Cupids
Dark Cove
Deer Lake
Dover
Dunville
Eastport
Elliston
Englee
Fermeuse
Ferryland
Flatrock
Fox Harbour
Freshwater
Gaskiers
Gillams
Glenwood
Goulds
Hampden
Harbour Grace
Holyrood
Howley
Irishtown
Jerseyside
King's Point
Lamaline
Lark Harbour
Leading Tickles
Long Harbour
Lord's Cove
Main Brook
McIver's
Meadows
Melrose
Mount Carmel
Mount Moriah
Musgravetown
Norman's Cove
Paradise
Peterview
Petty Harbour
Placentia
Port Anson
Port Blandford
Portugal Cove
Pouch Cove
Renews-Cappahayden
Riverhead
Roddickton
St. Brendan's
St. Bride's
St. Joseph's
St. Mary's
St. Philip's
St. Thomas
Salvage
Sandy Cove
South Brook

South River
Sunnyside
Tilton
Trepassey
Upper Island Cove
Wabana
Wabush
Westport
Whitbourne

City:

City of St. John's

APPENDIX III

RECOMMENDATIONS

"Improving Accountability — Canadian Public Accounts Committees and Legislative Auditors."

Note: The following are the 69 recommendations included in the 1981 Canadian Comprehensive Auditing Foundation Report entitled as above-noted. I refer to these in paragraph 13 of my Report.

Appendix III

RECOMMENDATIONS

"Improving Accountability — Canadian Public Accounts Committees and Legislative Auditors."

1. Each Public Accounts Committee prepare and adopt a formal written statement that describes the committee's role and responsibilities.

2. The written statement of role and responsibilities comprise a general statement of purpose and a list of issues that the committee is to examine, assess, report on to the legislature, and follow up with the administration, including:

   — the reliability and appropriateness of information in the Public Accounts to provide a full and fair accounting of operations and financial transactions;

   — the collection of, and proper accounting for, all taxes and other revenues due;

   — the maintenance of expenditures within the limits and for the purposes authorized by the legislature;

   — the adequacy of safeguards to protect assets from loss, waste and misappropriation;

   — the regard for economy in the acquisition of goods and services;

   — the regard for efficiency in operations; and

   — the effectiveness of programs in achieving their stated objectives.

3. Provision be made for the automatic and permanent referral to Public Accounts Committees of both the Public Accounts and the Auditor's report as soon as they become available.

4. Public Accounts Committees recognize their capacity to investigate any matter that is within their terms of reference.

5. Ministers be called as witnesses before Public Accounts Committees only when they have been personally involved in decisions under examination.

6. Chairmen of Public Accounts Committees explain to witnesses their legal position in regard to future actions that may arise from testimony.

7. Provision be made to allow Public Accounts Committees to meet whether the House is in session, recessed or prorogued.

8. Public Accounts Committees be limited to between 5 and 11 members.

9. Public Accounts Committees be appointed for the full term of the legislature, and not session by session.

10. Chairmen of Public Accounts Committees be members of the opposition.

11. Chairmen play a leading role in all aspects of committee work and participate in the questioning of witnesses and in other committee deliberations.

12. Chairmen of Public Accounts Committees serve for the life of a legislature or until replaced.

13. Committees elect vice-chairmen from among the government members.

14. Larger Public Accounts Committees appoint a steering committee to plan the work and to bring forward drafts of committee reports.

15. Ministers not be appointed as members of Public Accounts Committees.

16. One clerk, who gives first priority to these duties, be assigned to serve the Public Accounts Committee.

17. Research assistance be provided to Public Accounts Committees.

18. Consideration be given to compensating members of Public Accounts Committees for their attendance at meetings held when the legislature is not in session.

19. Consideration be given to appropriate financial recognition for the extra work and responsibilities assumed by the chairmen of Public Accounts Committees.

20. All Public Accounts Committee meetings for hearing testimony be open to the press and public, except when evidence of a particularly sensitive nature is to be given.

21. Meetings for planning future work, briefings, reviewing progress and drafting reports be held in camera.

22. Public Accounts Committees plan, in general terms, the work to be undertaken at the beginning of each session, and prepare formal agendas for public distribution at least one week ahead of each meeting.

23. Committees arrange for suitable briefing material to be available to members prior to hearings, and if necessary set time aside to review it.

24. A verbatim transcript of Public Accounts Committee hearings be prepared and published promptly.

25. Committees keep brief, formal minutes of proceedings.

26. Suitable meeting space, with appropriate facilities, be available to Public Accounts Committees.

27. Public Accounts Committees schedule sufficient, regular meetings to discharge their responsibilities.

28. Provision be made for legislators who are not members of Public Accounts Committees to attend meetings and participate in the questioning of witnesses, but not to vote.

29. Procedures for questioning witnesses be adopted that permit productive lines of questioning to be taken to their conclusion and allow all members an opportunity to participate.

30. Public Accounts Committees concentrate their attention on significant issues of management and financial administration rather than on isolated, unimportant, individual transactions.

31. Public Accounts Committees prepare substantive reports at least annually containing a summary of findings, a statement of conclusions, and recommendations for action to be taken by the government.

32. Wherever possible, Public Accounts Committee reports be arrived at through a consensus of all members of the committee.

33. Legislatures set aside time to debate the reports of Public Accounts Committees at least annually.

34. Public Accounts Committees adopt an effective procedure for following up their recommendations with the administration.

35. Auditors be required by legislation to express an opinion on the financial statements and the accounting policies underlying them.

36. Legislation specifically give Auditors responsibility for reporting on the adequacy of the information provided to the legislature in the Estimates and Public Accounts.

37. The legislation establishing the mandate of Auditors specifically include an examination and reporting on value-for-money issues, including regard for economy and efficiency in operations and procedures for evaluating and reporting on the effectiveness of programs in meeting their objectives.

38. Legislation provide that Auditors accept specific assignments from their legislatures, provided these do not take precedence over other duties assigned by statute.

39. Legislation provide that Auditors accept direction by the government to perform audits only if in their opinion such work would not interfere unduly with the performance of their regular duties.

40. Auditors not be responsible for any aspect of the government's financial administration including the pre-audit of expenditures.

41. Legislation make specific provision for the confidentiality of the Auditor's working papers.

42. Auditors be given legislative authority to obtain any information or documents they require from Crown organizations or their auditors, and to conduct any further examinations that they deem necessary.

43. Given a sufficient improvement in the timeliness of completing government accounts, Auditors work toward the goal of completing their annual reports within six months after the fiscal year end, and have their opinions and comments on the financial statements incorporated in the Public Accounts.

44. Auditors' annual reports be released to members of the legislature and to the public as soon as they are available, regardless of whether they have been tabled in the legislature.

45. The Auditor's annual report be presented to the Speaker, who shall table it in the legislature at the earliest opportunity.

46. Wherever possible and appropriate audit reports incorporate responses by the audited organizations to the Auditor's comments and recommendations.

47. Legislation provide that Auditors need not report matters that, in their opinion, are inconsequential.

48. Auditors follow up the recommendations made in their reports and ensure that the responses are made known to the Public Accounts Committees.

49. Statutory provision be made for Auditors to make special reports to the legislature on matters of urgency and importance.

50. Legislation clearly establish Auditors as officers of the legislature.

51. An objective, rigorous search process be used in filling a vacancy in the Auditor's position.

52. Mechanisms be devised to ensure that the individual appointed to the position of Auditor is acceptable to both government and opposition members of the legislature.

53. Statutory provision be made for filling a temporary vacancy in the office of Auditor, and such provision include safeguards to prevent interim appointments for unduly extended periods of time.

54. Auditors be appointed for a fixed, non-renewable term of no more than ten years.

55. The Auditor's salary be tied by statute to that of top public servants.

56. Provision be made for a review of the Auditor's budget by a representative group of legislators before it is presented to the House for approval.

57. Legislative provision be made for a special report to the legislature by Auditors in whose opinion the resources provided for the operation of their offices are insufficient.

58. Auditors have sufficient independence from central administrative controls to ensure that they can organize, staff and manage their offices and engage outside expertise as they see fit, within their budgets and within the provisions of legislation designed to protect the rights of public servants.

59. Legislative provision be made for an audit of the audit office, conducted by a qualified auditor who is not an employee of the Crown, with the results made available to the legislature.

60. Separate legislation be enacted dealing with the Auditor and the audit office.

61. A committee of senior representatives of all recognized parties in the House, including at least one minister, be given responsibility for approving the Auditor's budget for presentation to the House, for appointing and considering the reports of the Auditor's auditor, and for such other duties regarding the operation of the audit office as may be deemed appropriate.

62. Public Accounts Committees set aside time to familiarize themselves with the nature of the work and the responsibilities of the audit office, within the context of government financial administration.

63. Auditors and/or members of the audit staff attend all hearings of Public Accounts Committees to act and be used as a source of expert advice to the committees.

64. Public Accounts Committees make use of Auditors as advisers while preparing their agendas and reports and in briefings prior to their hearings.

65. Auditors discuss the general subject of the format and style of their reports with Public Accounts Committees.

66. Auditors prepare their reports with the needs of Public Accounts Committees in mind.

67. Auditors consider issuing separate reports on special studies or comprehensive audits as they are completed.

68. Public Accounts Committees be given the power to instruct Auditors, by resolution, to conduct specific examinations, provided that such assignments do not unduly interfere with the regular duties of the audit offices.

69. Public Accounts Committees discuss with Auditors the most appropriate manner of using the services of the audit offices to follow up committee recommendations.

Number/
Numéro

3

PROVINCE OF NEWFOUNDLAND

REPORT OF THE AUDITOR GENERAL
TO THE HOUSE OF ASSEMBLY
for the
FINANCIAL YEAR ENDED
31 MARCH 1982

PRINTED UNDER THE AUTHORITY OF THE HOUSE OF ASSEMBLY
ST. JOHN'S, NEWFOUNDLAND

GOVERNMENT OF NEWFOUNDLAND AND LABRADOR
DEPARTMENT OF THE AUDITOR GENERAL

February, 1983

The Honourable J.F. Collins, F.R.C.P.(E.),

Minister of Finance.

Sir:

In compliance with The Financial Administration Act, 1973, I have the honour to submit herewith, for transmission to the House of Assembly, the Public Accounts of the Province of Newfoundland for the financial year ended 31 March 1982 accompanied by my Report thereon.

Respectfully submitted,

J.F. McGrath, C.A.,
Auditor General.

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REPORT OF THE AUDITOR GENERAL

INTRODUCTION

In compliance with the requirements of Sections 62 and 67 of The Financial Administration Act (Statutes of Newfoundland, 1973, No. 86), I submit my Report to the House of Assembly on the results of my examination and audit of the accounts and financial statements of the Province of Newfoundland for the financial year ended 31 March 1982.

The Public Accounts

2. Section 55 of The Financial Administration Act, 1973 reads:

"55.—(1) The Comptroller General shall as soon as possible after the end of each fiscal year prepare a report, to be called the Public Accounts, and shall submit it for audit by the Auditor General and onward transmission to the Minister for submission to the House of Assembly.

(2)The Public Accounts shall show in respect of the fiscal year to which they relate

(a) the state of the public debt;

(b) the revenue and expenditure;

(c) all compromises, remissions, refunds and amounts written off; and

(d) such other accounts and statements as may under good accounting practice be required to show the financial position of the province at the end of the fiscal year."

Financial Statements of the Province for 1981-82

3. The financial statements of the Province, submitted for audit by the Comptroller General of Finance in compliance with Section 55(1) of The Financial Administration Act, 1973, are listed in the Table of Contents of the volume of Public Accounts for 1981-82 under the following captions:

Statement of Assets and Liabilities

Consolidated Revenue Fund — Statement of Receipts and Payments

Revenue, Expenditure and Related Revenue

AUDITOR GENERAL'S OPINION

Accounts examined

4. In addition to my examination, from time to time, of the various accounts of the several departments, I have examined the accounts of the Province and the financial statements with respect to these accounts which have been prepared under the direction of the Comptroller General, and to which I have referred in paragraph 3. I have received all the information and explanations I have required.

Scope of examination

5. My examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as I considered necessary in the circumstances.

Departmental accounts for the year ended 31 March 1982 were examined and tested to comply with the requirements of The Financial Administration Act, 1973:

(i) Current Account Revenue and Related Revenue accounts were examined to comply with Section 61 of the Act, which reads: "The Auditor General shall satisfy himself that all public money is being fully accounted for and shall examine at his discretion the accounts of all persons charged with the collection and management of public money."

(ii) Expenditure accounts were examined to comply with Section 60(1) of the Act, which reads: "The Auditor General shall examine periodically the accounts of all departments and shall take such further steps as he may deem necessary to satisfy himself that the accounts are faithfully and properly kept and that money expended has been applied, subject to this Act, to the purposes for which it was appropriated."

(iii) The accounts of the province and the related financial statements were examined and audited to comply with the requirements of Section 62(1) of the Act, which reads: "The Auditor General shall, besides examining from time to time the various accounts of the several departments as provided for by this Act, examine and audit the accounts of the province for each fiscal year and for that purpose statements with respect to such accounts shall be prepared by such persons as the Comptroller General may direct."

The statements referred to in Section 62(1) of the Act are listed in Section 62(2) of the Act, as follows:

(a) accounts of all receipts forming the Consolidated Revenue Fund;

(b) accounts of all expenditures made from the Consolidated Revenue Fund;

(c) accounts current with the several banks and fiscal agents of the province;

(d) accounts relating to the raising or redemption of loans;

(e) accounts relating to sinking funds;

(f) accounts with other governments;

(g) accounts held in trust for others; and

(h) all other public accounts.

Opinion

6. In accordance with the requirements of Section 62(3) of The Financial Administration Act, 1973, I report as follows on the results of my examination and audit of the accounts and financial statements of the province for the year ended 31 March 1982.

In my opinion,

(a) proper books of account have been kept by the province;

(b) the financial statements of the province

  (i) were prepared on a basis consistent with that of the preceding year and are in agreement with the books of account,

  (ii) in the case of the balance sheet, present fairly the state of the affairs of the province as at the end of the fiscal year,

  (iii) in the case of the statement of revenues and expenditures, present fairly the revenues and expenditures of the province for the fiscal year, and

  (iv) in the case of the Consolidated Revenue Fund, the statement of receipts and payments present fairly the receipts and payments of the Consolidated Revenue Fund for the fiscal year.

GENERAL MATTERS

7. **Foreword.** This audit report is submitted to the House of Assembly in accordance with the provisions of The Financial Administration Act, 1973. It describes the background of my position, presents the required audit opinion on the financial statements of the Province and includes detailed comments as I deem necessary on these financial statements. It also includes other comments and financial information which I consider should be reported to the Legislature.

8. **Financial Statements.** Financial statements are prepared for the purpose of providing summarized information as to the financial position of an organization at a given point in time, and the results of its financial activities over a specified period. The Public Accounts are the medium by which this information is provided for the Province of Newfoundland.

The magnitude of financial operations summarized in the Public Accounts, and the special nature of the accountability of governments to the people they represent, impose a great responsibility on those concerned with the proper maintenance of the records on which they are based and the presentation of the results in the most accurate and clearly understandable form possible. This responsibility rests with the Comptroller General of Finance, who is the chief accounting officer of the Government. Responsibility for the accounts and financial statements of public bodies rests with the management of those bodies. Representations in the financial statements of the Government and of the public bodies are therefore those of the Government and of the managements of the public bodies.

9. **Function of the Auditor General.** Governments have long felt the need to appoint an officer independent of the government of the day and of public officials and employees, to carry out an examination of the public accounts, and report directly to the elected legislative entity. The practice is international, and Canada has had an Audit Office since 1878. All of the provinces have, over the years, established such offices. I am an officer of the Legislature, appointed by the Lieutenant-Governor of the Province of Newfoundland. I am independent of the Government, and report to the House of Assembly.

One of the primary functions of an auditor is to report on the representations made by management in the financial statements. Such financial statements are a report by management of its stewardship. In the case of a provincial government, the management is the government of the day. The financial statements are embodied in the Public Accounts submitted to the House of Assembly.

To carry out this function, the auditor examines such audit evidence as is deemed appropriate and is available. The examination is conducted in accordance with professionally established generally accepted auditing standards. The Canadian Institute of Chartered Accountants pronounces upon these standards. On the basis of the evidence examined, the auditor endeavours to arrive at an opinion as to the credibility of management's representations, and as to the degree of their compliance with established accounting principles. In most activities other than those of governments, these are known as "generally accepted accounting principles." Because generally accepted accounting principles have not been established for governments, it is usual to report on the degree of compliance with stated accounting policies.

Under early legislation of other government jurisdictions, it was usual to restrict the duties required of legislative auditors to those described in the previous paragraph. More recently it has become accepted that they may, or are required to, extend their audit functions beyond those traditionally required for the expression of an opinion, in order to provide additional information for the improvement of financial management. The concept has also evolved that legislative auditors may or should extend the scope of their work to include assessments of the degree to which programs are economically and efficiently administered and the appropriateness of the basis of accounting for fair presentation in the Public Accounts. These extended duties will, I hope, be given to me under a new Auditor General Act.

10. **Organization of the Department.** Since my last report to the Legislature I have spent considerable time in assessing my role in auditing the accounts of the Province and many other entities. I concluded that a reorganization of my Department was desirable to enable me to better meet the responsibilities of my position.

My organization was previously divided into three branches with responsibilities as follows:

- Public Accounts Branch — responsible for auditing the accounts of all government departments and the Public Accounts of the Province and for preparing the Auditor General's Annual Report to the House of Assembly.
- Other Accounts Branch — responsible for auditing the accounts of Crown Corporations, Boards, Authorities and Sundry Funds administered by the Province, the City of St. John's, and certain School Tax Authorities and Municipalities.
- Research and Development Branch — responsible for appropriately related functions, including computer auditing, recruiting staff and staff training and development and for matters relative thereto.

The main thrust of my reorganization was to provide for a reallocation of audit work to three "restructured branches" of my Department. Each branch will have a mix of audit work and a portion of the work formerly assigned to the Research and Development Branch. This new structure will, I believe, allow my staff to receive a variety of experience by being exposed to the full range of my audit responsibilities, thus improving the overall capability of my Department. Other objectives of the reorganization are: to improve the quality of audit work by placing professional audit staff in positions that would make effective use of their skills and judgements; to reduce future departmental training cost by retaining present and future professional staff (C.A., C.G.A., R.I.A.).

In June 1982 I requested Treasury Board authority to reorganize the Department of the Auditor General along the above lines. The approval was given by Treasury Board in September 1982 and the new organization is now being effected.

11. **Students-in-accounts.** I am pleased to report that one of my staff qualified as a Chartered Accountant in 1982, and another qualified as a Certified General Accountant. I congratulate these two graduates and wish continued success to those of my staff now studying towards a professional accounting designation.

12. **Timetable for preparation of the Auditor General's Annual Report to the Legislature.** The timetable followed in the preparation and submission of the Annual Report of the Auditor General has followed a standard pattern for a number of years. While I have been fulfilling the legislative requirement with regard to tabling my Annual Report as required under The Financial Administration Act, 1973, I am very concerned by the fact that many audit observations contained therein are brought to the attention of the Legislature months after discovery.

The essential issue respecting completion and presentation of the Auditor's Annual Report is that it be prepared and made public on a timely basis.

It is my own feeling that the Annual Report of the Auditor General should be completed and available to the Members of the House of Assembly within six months after the financial year-end of the Province. I have had discussions with the Comptroller General of Finance regarding earlier preparation of the Public Accounts for submission to me for audit and he agreed that it is the hope of the Department of Finance in future to have the Public Accounts completed and submitted for audit at an earlier date than in previous years.

This year, after careful consideration, I decided that my Report should and would be completed earlier. Accordingly, I directed my staff to cease audit work on the Public Accounts of the Province for 1981-82 much sooner than had been the previous practice of this Department. It is my intention that next year's Report will be completed as soon as possible after 30 September 1983.

It is only by doing this that the Legislature will receive timely and current audit observations for their consideration.

13. **Development of a Computer Audit Capability.** Significant progress continues to be made in the development of a Computer Audit Capability within my Department. By using an in-house computer terminal facility and aided by the "EDP Auditor" software package my staff was able to make extensive use of the computer as an audit tool. Computer assisted audit techniques were used on five audits during the past year. Some of the results of this work are reflected in certain comments which appear in other sections of my Report. This extended use of the computer as an audit tool marks a major step forward in the development of computer auditing within my Department.

Change has been and will continue to be the key word for development and growth of computer auditing. I intend that, where appropriate, the Clarkson Gordon methodology and procedures will be integrated into my Department's computer audit approach. This, combined with a new organizational structure, will complete the basic framework for building a computer audit capability within my Department.

I note that Newfoundland and Labrador Computer Services Limited and the Office of the Auditor General of Canada have contributed invaluable assistance to my Department in this area throughout the past year. I look forward to their continued support.

14. **Guide on Financial Administration.** In paragraph 10 of his 1976-77 Report, the Auditor General stated, as follows, on the subject "Need for a Guide on Financial Administration."

"In my report to the House of Assembly this year, I wish to record my opinion that:

(i) The Treasury Board, in carrying out the financial management function referred to in Section 6(a) of The Financial Administration Act, 1973, should be required to give the highest priority to preparing and issuing a Guide on Financial Administration for use by provincial government departments and agencies;

(ii) Such a "Guide" is badly needed and it should be brought into use as soon as possible as a base for ensuring that the financial administration function, a vital function in government, is properly managed and controlled by the Treasury Board. Also, it would serve as a base for ensuring that the responsible officials of the various government departments and agencies consistently and effectively discharge their responsibilities for financial management and administration.

"In expressing this opinion, I wish to direct the attention of the House of Assembly to the "Guide on Financial Administration for Departments and Agencies of the Government of Canada" issued by the Treasury Board, Canada. In the Foreword to the Guide the President of the Treasury Board stated, among other things,

> "Financial administration has always been a vital function in government; but it has assumed even greater importance in an era when rising public demand for new services has had to face the reality of resource limitations.
>
> "The purpose of this Guide on Financial Administration is to identify the objectives of the government for financial administration in departments and agencies and accordingly to direct a course of action for deputy heads to follow in discharging their responsibilities for financial administration.
>
> "Traditionally, the main objective for financial administration has been to control cash disbursements in relation to appropriations approved by Parliament. While this objective remains important, increasingly there is need for departmental and central agency managers to relate financial costs to program achievements or outputs to ensure that maximum effectiveness and efficiency are attained in the expenditure of public funds. The Guide is designed to assist managers in establishing systems of financial administration that will meet both these objectives."

In a memorandum to the Auditor General, dated 5 January 1978, concerning the above-stated paragraph, the Secretary of the Treasury Board stated, "As you are aware your recommendation is very similar to that which was made last Spring by the Public Accounts Committee and agreed to by Treasury Board and the Department of Finance." Also, the Secretary stated, "As far as Treasury Board's comment on the Guide is concerned, I can only assure you that we are in complete agreement with the wording of your comment. We agree that there is a need for us to give the highest priority to preparing and issuing such a Guide, particularly for use by Government Departments."

On 6 April 1978, a Cabinet Directive was issued on the matter of the development of a Guide on Financial Administration for Government Departments. It established a four-man Committee of Treasury Board and Department of Finance officials, with the Assistant Secretary (Financial) of Treasury Board as Chairman, to "oversee the development of this Guide which has had the endorsement of the Public Accounts Committee and the Legislature."

In May of 1980, a Cabinet Directive approved six completed chapters of the Guide and authorized their distribution to government departments. It also directed the Secretary of the Treasury Board and the Deputy Minister of Finance to ensure that the remaining work on the Guide proceeds as expeditiously as possible.

In each of his annual Reports to the House of Assembly, for 1977-78 and onward, the Auditor General has informed the House of Assembly as to the progress made on the Guide by the Treasury Board and Department of Finance officials. I note that the official title of the Guide is "Government of Newfoundland and Labrador, Management Manual, Volume 1, Financial Policy and Procedures."

The following is a summary of progress on the Manual to this date (November 1982). Seven chapters have been issued by Treasury Board under the authority of Cabinet Directives; six chapters have been compiled and are in various stages of review; and, one is yet to be developed:

(i) Six chapters, authorized for release on 15 May 1980:

Chapter I — Financial Management

" II — Organization for Financial Management

" III — Delegation of Financial Authority

" IV — Legislated Appropriations and Control of Funds

" VIII — Revenue and Accounts Receivable

" IX — Accounts Payable

(ii) One chapter, authorized for release on 15 September 1981:

Chapter X — Inventory Management

(iii) Six chapters, in process (November 1982):

Chapter V — The Budget Process

" VI — Payrolls

" VII — Capital Assets

" XII — The Public Accounts

" XIII — Write-Off

" XIV — Audit

(iv) One chapter, to be developed:

Chapter XI — Financial Management Information System

It is now four years and eight months since the project to develop the Guide on Financial Administration was authorized. I therefore, at this time, express my concern that the Government of Newfoundland and Labrador, Management Manual, Volume 1, Financial Policy and Procedures is not yet fully completed and in use by Government Departments. In my opinion, action should be taken by the Executive Council to:

(i) redirect the Committee of Treasury Board and Department of Finance officials to see that the remaining work on the Management Manual is completed without further delay;

(ii) require that Treasury Board should make provision for revising the issued chapters of the Manual, as necessary, having regard to that segregation of duties and responsibilities, between the Deputy Minister of Finance and the Comptroller General of Finance, which resulted from the 16 June 1981 amendments to The Financial Administration Act, 1973; and,

(iii) require that Treasury Board make provision for ensuring, on an ongoing basis, that Government Departments are complying with the requirements of the Manual.

15. **Canadian Comprehensive Auditing Foundation.** The Canadian Comprehensive Auditing Foundation is a co-operative association of legislative auditors, public accountants, management consultants and others who share a common interest in the development of improved methodologies to incorporate value-for-money considerations into the audit process. The Foundation carries out research, conducts training programs, and promotes the exchange of information and views.

I am pleased to report that the Department of the Auditor General of Newfoundland is a sustaining member of the Foundation. I had the opportunity to attend the 3rd Annual Conference of the Foundation in Montreal, Quebec in October, 1982. The theme of the conference was "Strengthening Public Sector Accountability."

While in attendance at the conference it was my privilege to be elected to serve on the Board of Governors of the Canadian Comprehensive Auditing Foundation for a three-year period. I look upon this both as a challenge and an opportunity and it should certainly benefit this Department as I seek to achieve a broadened mandate under a new and separate Auditor General Act.

For the information of the Legislature, I am again repeating, in Appendix III to this Report, the 69 recommendations included in the Foundation's first major report, "Improving Accountabililty - Canadian Public Accounts Committees and Legislative Auditors." These recommendations will be extremely important in the development of a new Audit Act.

16. **Canadian Conference of Legislative Auditors.** The tenth annual meeting of the Canadian Conference of Legislative Auditors was held in Victoria, British Columbia from July 5-7, 1982. Representatives of all legislative audit offices, both provincial and federal, attended. The meeting, which serves as a useful forum for the sharing of ideas and information, was attended by three members of this Department.

Matters discussed at the Conference included Federal/Provincial cost sharing - grants and contributions, professional development, and an update of the Canadian Institute of Chartered Accountants Public Sector Accounting and Auditing Committee.

The Chairmen of the Public Accounts Committees in Canada held their fourth annual meeting in Victoria at the same time as our Conference so that the agenda of both groups could be arranged for a joint session. The subject of the joint session was "The Problems of Reporting to the Legislature."

The 1983 Conference will be held in Toronto, Ontario and is being arranged so that there can be once again a joint session with the Legislative Auditors and Chairmen of the Public Accounts Committees.

17. **Public Accounts Committee.** The Public Accounts Committee has been appointed under Standing Order 84(a)(d) of the standing orders of the House of Assembly of Newfoundland to enquire into the Public Accounts of the Province and the Report of the Auditor General on these accounts.

During the past year, to 31 December 1982, the Committee held meetings to consider the Public Accounts and the Report of the Auditor General for the financial year ended 31 March 1981. Further meetings are scheduled to be held in 1983. I have attended the meetings to date to be of any possible service to the Committee. As well, I continue to provide a member of my staff to the Committee as its research officer.

I would like to note, at this time, that the previous Public Accounts Committee has not as yet tabled its report related to the Public Accounts and the Report of the Auditor General for the financial year ended 31 March 1980.

18. **Corner Brook Office.** During 1981 I opened the first branch office of the Department of the Auditor General in the City of Corner Brook. This office is now staffed by a Chartered Accountant and three assistant auditors. Its first year of operation was quite successful and enabled me to carry out my responsibilities in the west coast area of the Province in a more effective and efficient manner. I have recently assigned to this office the audit work to be performed in Labrador by my Department.

19. **Crown corporation and other audits.** In addition to auditing the Public Accounts of the Province of Newfoundland, the Auditor General is responsible for numerous other audits. These include the audits of Crown Corporations, Boards,

Authorities and Sundry Funds administered by the Province, the City of St. John's, and certain School Tax Authorities and Municipalities. These additional audits, some of which are performed from the Corner Brook Office of my Department, are listed in Appendix II of my Report.

20. **Auditor General's Advisory Council.** I wish to acknowledge the valuable contribution made by the following members of the accounting profession who have served on my Advisory Council during the past year.

Ted Hunter, F.C.A.

Ruben Rosen, F.C.A.

Bernard Hogan, C.A.

Wayne Trask, C.A.

COMMENTS ON ASSETS AND LIABILITIES

Department of Finance

21. **Action to correct internal control weaknesses.** In paragraph 20 of my 1980-81 Report, I outlined certain internal control weaknesses which were disclosed during a review of the internal control procedures relating to the Newfoundland Exchequer Account and to other disbursement bank accounts maintained by the Exchequer Office Section, Department of Finance.

A member of my staff recently reviewed the concerns expressed in paragraph 20 of my 1980-81 Report, with officials of the Department of Finance, Exchequer Office Section, and I am pleased to report that action has been or is being taken to correct most of the internal control weaknesses identified by audit.

The Comptroller General of Finance during his appearance before the Public Accounts Committee on 28 September 1982, stated that a new accounting system for government, which was being designed over the past three years, was due to go into operation on 1 April 1983. I expect that this new system will provide for adequate internal control over government's main bank accounts and the related disbursement of public funds.

22. **Provision for loss on investments.** In paragraph 22 of my 1980-81 Report, I referred to the provision of $2,096,000 for loss on investments by the Province in several corporations and noted that no provision had been made for potential losses resulting from investments in certain other corporations. One example noted was Marystown Shipyard Limited, a Crown Corporation, in which the Province's Investment Schedule showed that it held shares with a total value of $16,187,881, as at 31 March 1981. The audited financial statements of the corporation as at 28 March 1981, however, reported the Shareholders' Equity to be $2,159,431.

I note from the audited financial statements of Marystown Shipyard Limited, as at 27 March 1982, that the Shareholders' Equity was reported to be $734,338. This is $15,453,543 less than the carrying value of $16,187,881 reported by the Province for its investments in that corporation as at 31 March 1982. (The Province owned, directly or indirectly, all of the issued shares of the corporation). It is apparent, therefore, that the value of the Province's investment in Marystown Shipyard Limited was substantially less than the value of the shares reported in the Schedule of Investments as at 31 March 1982. However, the provision for loss on investments still does not include any amount relative to shares owned by the Province in Marystown Shipyard Limited.

In my opinion, the provision for loss on investments should have been increased to adequately provide for all potential losses to the Province arising from its investments.

23. **Provincial Pension Plans.** The Province administers four pension plans which are provided for under separate statutes. These plans cover public servants, teachers,

constabulary and firemen, members of the House of Assembly as well as employees of various Crown corporations, Crown agencies, hospitals and school boards.

Prior to 1 July 1980, the Province made no pension contributions directly to these plans. Pension contributions were made by members of each plan at varying rates ranging from a low of 3% of payroll to a high of 7%. All pension contributions received as well as pensions paid were reported in the accounts of the Province as revenues and expenditures, respectively, of the Consolidated Revenue Fund.

Under the Authority of The Pensions Funding Act, assented to on 13 April 1981, a fund was established, with effect from 1 July 1980, known as the Province of Newfoundland Pooled Pension Fund. Essentially, this Fund is to receive all pension contributions made by members of the four participating pension plans, together with matching contributions from employers, including the provincial Government. All pensions and refunds of contributions are to be paid out of the Fund. Where at any time there are insufficient assets to meet the obligations of the Fund or the equity apportioned to each plan is insufficient to meet the obligations of the plan, the Minister of Finance shall pay out of the Consolidated Revenue Fund sufficient monies as may be necessary to cover the deficit.

The latest actuarial valuations made, as of 1 April 1977, relating to these plans showed, among other things, that:

(i) Estimated unfunded pension liabilities amounted to $500.9 million, as at 1 April 1977, relating to service prior to that date.

(ii) To fund the liabilities referred to in (i) would require a substantial increase in the rate of contributions being made.

(iii) The contributions that are estimated to be required to fund the benefits accruing to active plan members, for all service performed after 1 April 1977, are substantially higher than those being made.

I should like to draw attention to the fact that the foregoing information was taken from a report that is five years old.

As of 1 July 1980, a separate fund (Province of Newfoundland Pooled Pension Fund) was established which provides for partial funding of the Province's liabilities for pension benefits accruing to employees under these plans. The balance of this Fund as at 31 December 1981 was approximately $81 million.

In my opinion, the future financial stability of these plans might be jeopardized by deferring to the future pension costs that are accruing at what is probably a significant rate. Accordingly, I suggest that the four pension plans administered by the Province be subjected to intensive study, particularly with respect to the accrued unfunded liability situation and the relationship between the costs of current service benefits being accrued and the contributions required to fund these benefits. The ultimate objective of such a study should be to provide up to date actuarial valuations and to make recommendations to provide for the future financial stability of these pension plans.

I would also like to bring to the attention of the House of Assembly the magnitude of the Province's accrued liability to pay benefits, in the future, to members of these pension plans. This liability, which was estimated to be $500.9 million, as at 1 April 1977, is disclosed in Note 3, of the Notes to the Financial Statements.

Department of Public Works and Services

24. **Improper accounting treatment for a fixed asset.** In May 1974 the Department of Public Works and Services accepted a proposal whereby it would rent buildings, to be constructed as a Regional College in Corner Brook, for a thirty year period after which the buildings would become the property of the Department. In June 1975 the Project Architect issued a Certificate of Substantial Completion and the Department signed an indenture to commence renting the buildings on 1 September 1975.

The accounting treatment followed by the Department for this lease is to charge the annual rental payments of $989,282 to capital expenditure. Therefore the payments to date, which include both principal and interest, have been recorded as a fixed asset of the Province. I note that in other instances where the Province has entered into long-term lease agreements, the rental payments are divided between principal and interest, with the principal portion being charged to capital expenditure and the interest portion charged to current expenditure. I also note that the existence of this long-term lease has not been reported in the Notes to the Financial Statements in the Public Accounts of the Province.

My concern relative to the accounting treatment of the rental payments was brought to the attention of the Department in letters dated 17 March 1981 and 11 January 1982. In its replies to these letters the Department informed me that it intended to discuss the matter with the Department of Finance, but to date (1 November 1982), I have not been informed of any changes in accounting treatment relative to this item.

In my opinion, a more appropriate accounting treatment would be to:

(i) Charge the interest portion of the rental purchase payments to current account expenditure and the principal portion to capital account expenditure.

(ii) Report in the Notes to the Financial Statements of the Province the existence of the long-term lease agreement and other relevant information (i.e., period of lease and purchase option).

Department of Education

25. **Province's liability of $104,010,585, for debt of the Denominational Education Committees, not properly disclosed in the Public Accounts.** Under authority of a Minute of Council dated 19 June 1980, the Province agreed with two banks that certain amounts borrowed from these banks by the Denominational Education Committees would be repaid by the Province through the Committees, within 5 years, or refinanced under mutually acceptable terms. The amount outstanding on these loans at 31 March 1982 was $94,422,105.

Previously in a letter dated 31 January 1980, the Province had informed one of these banks that the Province would provide funds to repay certain loans from that bank to the Denominational Education Committees within 5 years of drawdown. The amount outstanding on these loans at 31 March 1982 was $9,588,480.

The Province's liability to repay the above-mentioned loans, totalling $104,010,585, is not properly disclosed in the Public Accounts of the Province. It is disclosed as guaranteed debt in the Schedule of Contingent Liabilities. I note that the Department of Finance decided this was the appropriate disclosure for this item, notwithstanding that the Department of Justice advised the Department of Finance, in a memorandum dated 25 November 1982, to the effect that Government has a direct liability relative to the amount of $94,422,105, referred to above.

In my opinion, the total amount of $104,010,585 is a direct liability of the Province and should be included in the Schedule of Current and Long-Term Liabilities of the Province as at 31 March 1982.

COMMENTS ON CURRENT ACCOUNT REVENUE

26. **General comments.** The Summary of Revenue, Expenditure and Related Revenue by Department, Statement No. 3 of the Public Accounts, shows total current account revenue at $1,366,152,000. Details concerning the amounts which are classified as current account revenue appear in Statement No. 5 of the Public Accounts and the notes thereto.

In summary, the total comprises:

Payments received from the Government of Canada —		
Subhead 490	Government of Canada	$650,351,000
Subhead 491.15	Reciprocal tax agreement	6,353,000
		656,704,000
Provincial income taxes collected and remitted by the Government of Canada —		
Subhead 491.09	Personal income tax	213,384,000
Subhead 491.12	Corporate income tax	44,838,000
		258,222,000
Revenue received through the Newfoundland Liquor Corporation and the Newfoundland Liquor Licensing Board		53,550,000
Retail Sales Tax		251,136,000
Gasoline Tax		52,049,000
Mining Tax and Royalties		22,872,000
Tobacco Tax		29,099,000
Revenue from other taxes, privileges, licences, permits, etc., collected by government departments, as shown in Statement No. 5		42,520,000
		$1,366,152,000

27. **Audit of Provincial Income Taxes.** As I have previously reported to the House of Assembly, both personal and corporate income taxes, imposed by the Province, are, by agreement, collected by the Government of Canada on behalf of the Province. However, due to the provisions of the collection agreement, the Auditor General of the Province is unable, himself, to perfrom the audit work required to express an opinion on the provincial tax revenue from these sources.

In recent years, I (and other provincial legislative auditors in a similar situation) have relied on assurances from the Auditor General of Canada, based on audit work performed under his direction, relating to the assessing, proper allocation and accounting for provincial personal and corporate income tax revenues.

With respect to provincial revenue from these sources for the financial year ended 31 March 1982, I report that the Auditor General of Canada has addressed my specific concerns and, based on the results of his audit of the accounts of Canada, there are no indications that the personal and corporate income taxes were not properly assessed, allocated and transferred by the Government of Canada on behalf of the Province of Newfoundland in compliance with the federal-provincial tax collection agreement.

Department of Finance

28. **Uncollected Mining and Mineral Rights Tax.** In 1975 the Legislature passed The Mining and Mineral Rights Tax Act, 1975, which replaced The Mining Tax Act, Chapter 239 of The Revised Statutes of Newfoundland, 1970. The 1975 Act imposed taxes on income from mining operations within the Province and, in addition, on income obtained or derived from persons holding "rights to mine." During 1981-82, tax revenue collected under this legislation and other special legislation related to mining operations totalled $22,871,994.

As a result of my 1981-82 audit of this revenue, I direct attention to the following matter:

Tax of $8,326,852 not paid. At 31 March 1982, tax recorded by the Department of Finance as owing from several mining concerns totalled $8,706,538. Of this amount $8,326,852 remained uncollected at date of audit (November 1982). The uncollected balance of $8,326,852 is recorded as owing from one company. It mainly comprises (i) additional royalties of $7,359,954 due for the six years, 1976 to 1981, inclusive, as a result of the price escalation of ore; and (ii) amounts totalling $966,898, withheld by the company from payments to a third company for Mineral Rights Tax for the three years, 1976 to 1978. The amounts withheld were not remitted to the Province, although the mineral rights section of the legislation requires such remittance. However, the Department of Finance has estimated that the delinquent company will be entitled to claim refunds of approximately $2,500,000 when all the required returns are submitted. These refunds result because Mineral Rights Tax was withheld and previously remitted to the Province, for account of the company, by the mining company operating the mine.

Details concerning these arrears were last outlined in my 1980-81 Report and are now updated as follows:

(i) The 1975 liabilities for Mineral Rights Tax withheld and for additional royalty payments were the subject of a court action commenced in July 1976. In a judgement given by the Supreme Court of Newfoundland, in July 1977, the company was ordered to pay taxes totalling $532,153 on account of the 1975 year.

(ii) The company appealed the court's decision.

(iii) In February 1979, the Appeal Division of the Supreme Court of Newfoundland dismissed the appeal; and, in March, the company paid the full amount of 1975 taxes owing, $532,153.

(iv) Subsequently, in April 1979, the Department of Justice commenced a second court action against the company for the non-payment of royalties, totalling $2,577,788, for the years 1976, 1977 and 1978.

Supplemental information indicated that, in June 1976, the company wanted to avoid legal proceedings being instituted and submitted a proposal for the liquidation of the tax and royalty then owing, which, at that time, amounted to the aforementioned sum of $532,153. The company proposed an extension of four months (to October 31, 1976) for payment of the 1975 tax arrears. It proposed to pay by assigning to the Province certain royalty payments due them from a third company. The Department of Finance rejected the proposal and took legal action. This action, commenced in July 1976, resulted in the 1975 tax liability not being paid until March 1979. Additionally, the amounts now recorded as owing from the company for the six years, 1976 to 1981, inclusive, stands at $8,326,852.

At date of my 1981-82 audit (November 1982):

(i) The court action commenced in April 1979 was concluded in August 1982 when, in a judgement given by the Supreme Court of Newfoundland, the company was ordered to pay royalties totalling $2,577,788 on account of the 1976, 1977 and 1978 years.

(ii) The liability for royalties, confirmed by the court in August 1982, had not been settled.

(iii) Subsequently, in September 1982, the Department of Justice commenced a third court action against the company for the non-payment of royalties, totalling $4,782,165, for the years 1979, 1980 and 1981. This action had not gone to trial.

Additionally, my review of documentation on file in the Department of Finance concerning matters related to the delinquent company disclosed the following:

(i) Through application of Section 234 of the Canada Business Corporation Act, the minority shareholders of the delinquent company obtained a judgement from the Superior Court of Quebec to have the business affairs of the company placed under the control of a Receiver-Manager for a twenty-four month period, starting 7 April 1982.

(ii) The Receiver-Manager in discussions with government officials expressed concern that the company would be forced into liquidation if the Newfoundland Government insisted on the payment of the arrears of royalties due.

(iii) The Department of Finance has indicated that all matters of concern related to this company's dealings with the Province are presently being reviewed and evaluated.

29. **Refunds of tax.** In accordance with Section 67(4)(g) of The Financial Administration Act, 1973, I report that refunds of tax during 1981-82 were made as follows:

Gasoline Tax	$ 262,000
Retail Sales Tax	744,000
	$1,006,000

COMMENTS ON EXPENDITURE AND RELATED REVENUE

Executive Council

30. **Public Accounts Committee Recommendations.** In paragraph 41 of my Report for the year ended 31 March 1981, I outlined two recommendations, Number 4 and Number 6, which the Public Accounts Committee had made with respect to paragraphs 27 and 28 of the Auditor General's Report for 1978-79. I also reported that, with respect to the Committee's recommendations, I had been informed by the Deputy Minister of Justice that, following a detailed analysis, officials of his Department concluded that there is not sufficient evidence to succeed in an action to recover funds paid out under the Devine Contract. Therefore, no such action has been commenced. With respect to recommendation Number 6, I was informed by the Deputy Minister that officials of his Department had reviewed the matter and had advised the Minister of Justice, and that the matter would be referred to Cabinet for its decision as to the appropriate course of action.

On 7 October 1982, I again wrote the Deputy Minister of Justice and requested that he inform me of any further action taken or to be taken by his Department with a view to implementing the aforementioned recommendations of the Public Accounts Committee. In his reply, the Deputy Minister informed me that his comments with respect to recommendation Number 4 are the same as those contained in his letter to me of 14 January 1982, i.e., that no action has been commenced. With respect to recommendation Number 6, the Deputy Minister stated: "I can advise you that Cabinet has considered this matter and that the Clerk of the Executive Council has received instructions from Cabinet as to the appropriate course of action in this matter. As a result, negotiations are ongoing between the Clerk of the Executive Council and the Company concerned in an attempt to achieve a settlement of this matter." I have more recently been informed, by the Clerk of the Executive Council, that Cabinet authorised the Department of Justice to enter into negotiations with the solicitors appointed by McConnell's Advertising Company Limited and that these negotiations are ongoing.

I am also informed by the Deputy Minister of Justice that Government holds invoices submitted under the contract to the amount of $64,362, which have not been processed for payment.

Department of Finance

31. **Audit of the General Service Payroll System.** In paragraph 43 of my 1980-81 Report I reported that, in my opinion, weaknesses previously reported were still present in the General Service Payroll System during the 1980-81 financial year. In particular, controls to enhance the completeness, accuracy and proper authorization of payroll transactions were deficient, and an unacceptable error rate existed in certain types of payroll records or transactions.

In that Report I also noted that I had been informed that, effective 25 March 1981, certain changes were implemented in the General Service Payroll System. As well, I expressed my concern that many of the areas previously reported are often controlled by the user Departments as opposed to the Payroll Processing Division of the Department of Finance. I indicated my intention to carry out a review of the General Service Payroll System for the 1981-82 financial year for the purpose of evaluating the effect of any changes in an effort to assess their impact on the overall system.

My audit of the General Service Payroll System for the financial year 1981-82 included a review of financial controls within the Payroll Processing Division of the Department of Finance and of the payroll procedures in six user departments. In addition, I performed substantive tests of payroll transactions as a means of assessing the impact of previously identified weaknesses on reported payroll expenditures. My tests were based on payroll transactions for the 26 pay periods of 1981-82 and involved the extensive use of computer assisted audit techniques. As part of my audit I also reviewed in detail a report, dated 19 October 1981, of the Internal Audit Division, Department of Finance, in which it made recommendations designed to eliminate or reduce the effect of systems weaknesses noted in the Payroll Processing Division of the Department of Finance.

Based on this audit I have concluded that, as at 31 March 1982, significant improvements in the system had been made in the Payroll Processing Division of the Department of Finance. I note, however, that certain areas of the system are controlled by the user Departments and my audit has disclosed that there are still weaknesses in that part of the system. In my opinion, the following exposures could result from such weaknesses:

(i) unauthorized, fraudulent or incorrect payroll transactions could be initiated;

(ii) terminated employees could continue to be paid; and

(iii) payroll transactions could be inaccurately accounted for resulting in a misstatement of government accounts.

In order to reduce these exposures I recommend that in the user Departments:

(i) the functions of initiating payroll transactions and receiving or distributing output should be segregated;

(ii) output should be reconciled or balanced to input; and

(iii) proper attendance records should be maintained and approved by designated officials.

The Department of Finance has advised me that further improvements in the General Service Payroll System are at various stages of implementation. I intend to evaluate such improvements at a later date.

Department of Public Works and Services

32. **Payment of $489,298 in rental and related expenditures for unoccupied space.** In paragraph 68 of my 1980-81 Report I reported that the audit of the Department of Public Works and Services disclosed payments totalling $374,196 in rent and taxes for 13,352 square feet of space which was essentially unoccupied. These payments were made during the period December 1979 to 28 January 1982.

Since my previous report the Department paid a further $107,261 in rent and $7,841 in taxes for the period 29 January 1982 to 31 October 1982. Therefore, from December 1979 to 31 October 1982 the Department paid a total of $489,298 for space which was essentially unoccupied for a 35 month period. I note that it is the intent of Government to use this space for a museum.

While I realize that the fitting up of space for a museum takes a considerably longer period of time than does the ordinary fitting up of space for general offices, in my opinion, the Department should have ensured that the rented space was fitted up on a timely basis, rather than pay $489,298 for space which was essentially unoccupied for a 35 month period.

33. **Non-compliance with the Local Preference Policy.** In paragraph 67 of my 1980-81 Report I stated that, in my opinion, the Department of Public Works and Services had not to 31 March 1981, implemented the Local Preference Policy to the fullest extent possible.

I reported that in March 1980, a Minute of Council ordered the implementation of a Local Preference Policy. The prime objective of this Policy was to increase employment of local labour through the increased purchase of goods by Government from local manufacturers and processors.

A subsequent Minute of Council, issued in June 1980, ordered that the Policy would become effective from 1 August 1980. This Minute of Council also approved "The Guidelines and Instructions for the Implementation of the Local Preference Policy." It directed that, "Copies of the guidelines ... be forwarded to each Department for implementation to the fullest extent possible pending any necessary amendments to The Public Tender Act and The Department of Public Works and Services Act."

In the course of my 1981-82 audit I requested information from the Department as to what steps it had taken to implement this policy. The Department's response, dated 15 November 1982, informed me, among other things, that:

(i) during the financial year 1981-82 the preferential purchasing instructions to bidders and the related forms were used in their tenders;

(ii) the information received on the above-mentioned forms was inconsistent and unverifiable; and

(iii) few, if any, tenders were accepted other than the low tender.

Based on this information from the Department, I conclude and report that, up to 31 March 1982, the Department of Public Works and Services had not implemented the Local Preference Policy to the fullest extent possible (as required by Minute of Council 803-'80).

34. **Weaknesses in certifying electrical bills.** My audit of Subdivision 503.04.10, Buildings, Operations, Light, disclosed that there were weaknesses in procedures followed by the Department of Public Works and Services in certifying electrical bills. The weaknesses revealed by my audit were:

(i) The Department does not have signed contracts in its current files for most utility connections. Therefore, documented evidence of the existence of utility connections and the accuracy of type of service for which the Department is being billed was not available for audit.

(ii) A schedule of rates for various types of services provided is supplied by the utility company each year. During the year, the Department did not check bills, that it certified, with the schedule of rates.

(iii) Electrical bills received by the Department are certified by its clerical staff. There is no requirement for these billings to be certified by an official of the user department.

In my opinion, these weaknesses resulted in a serious lack of internal control over the payment of $3,712,534 in electrical charges during 1981-82.

Department of Transportation

35. **Public tenders not called for certain roads construction projects.** The Public Tender Act, 1974, requires that, with certain exceptions, public tenders shall be called for the execution of public works. One of these exceptions applies where the work is an extension of an existing highway contract at the same unit price as that provided in the highway contract of which it constitutes an extension.

Since The Public Tender Act became law in 1974 the Auditor General has reported instances of highway construction contracts being extended for work which, in his opinion, represented new projects and as such should have been individually tendered. This matter was last referred to in my 1980-81 Report. In response to that comment the Department replied as follows:

> "We have reviewed with your respresentative examples of areas where you feel tenders should be called. We have reviewed carefully each project and are satisfied that extensions in each case were warranted and justified under the Section 3(c) of the Public Tender Act. Until some changes are made to the Act, which is presently under review, we must continue to use this section as outlined."

As a result of comments contained in the 1977-78 Report of the Auditor General to the House of Assembly, the Public Accounts Committee undertook an in-depth review of certain matters related to public tendering in the Department of Transportation. The findings of the Committee were reported to the House in its Report, tabled on 14 April 1980, on matters related to the 1977-78 financial year.

In the area of public tendering, Recommendation 13 of the Committee stated that:

> "While the core meaning of the words "extension" and "unit price" (as used in subsection (c) of Section 3 of the **Public Tender Act**) are clear on any reasonable reading of the Act, a statement of this meaning should be incorporated into the Act. As well, detailed rules for the application of this meaning should be provided in regulations made pursuant to Section 6 of the Act (which provides for the making of such regulations by Cabinet as are "necessary or expedient to ensure the carrying out of the provisions of this Act according to their true intent and meaning and to provide for deficiencies therein.")"

Even though this Recommendation of the Public Accounts Committee was made some two and one-half years ago, the suggested and necessary legislative improvements have not been enacted at date of my 1981-82 audit (October 1982).

It continues to be my opinion that the intent of The Public Tender Act, 1974, will not be fully accomplished until measures are taken to deal with the continuing problem of extending existing highway contracts to include new projects that have not been tendered.

36. **Continuing weaknesses in control over government air services and recommendations of the Public Accounts Committee not implemented.** In previous Reports, the Auditor General has commented on the serious lack of control by the Department of Transportation over the payment of public funds for air services. He concluded that action should be taken without delay to develop, document and implement systems and procedures to establish strict and satisfactory control over the use of government air services.

My 1981-82 audit of certain government air services expenditures disclosed that many control deficiencies have yet to be fully corrected. During 1981-82 the Province spent in excess of $3,300,000 for helicopter contracting and chartering. Audit of these expenditures disclosed that control deficiencies continue to exist in that:

(i) Expenditure for special charter helicopters exceeded the original approved budget of $370,000 by $201,443. Treasury Board approval was not requested for the additional expenditure.

(ii) Flight authorization forms were prepared and signed after the flights had been completed.

(iii) Flight reports were not signed for services received by persons using the helicopters.

(iv) Times of departure and arrival did not appear on some flight reports.

(v) Numerous photocopies of original flight reports were submitted and accepted by the Department as supporting documentation for air services invoicing.

(vi) In several cases flight reports in support of flights invoiced were not available.

Operation of the Province's Air Services Division for the fiscal year 1981-82 cost $7,891,000.

I will not be satisfied that significant aircraft costs of this nature are being properly controlled, until deficiencies such as I have outlined have been fully corrected.

As a result of comments in the 1977-78 Report of the Auditor General to the House of Assembly, the Public Accounts Committee undertook an in-depth review of matters related to government air services. The findings of the Committee were reported to the House in the Committee's report tabled on 14 April 1980. The Committee made a number of recommendations, one of which stated,

> "The Committee recommends that the Department implement a policy that the names of all passengers be on the flight report and an explanation be given for any non-government passenger on the flight."

As well, the Auditor General made a similar recommendation in correspondence to the Department dated January 1981. In February 1981, the Department replied that, "It is not a policy of government to list the names of passengers carried on government aircraft." At that time the Department could not produce documentation in support of this statement.

Subsequently, in May 1982, a Minute of Council was issued in which Government "Ordered that, in view of there being no regulatory requirement for recording such specific information, no records be maintained as to the purpose of flights or the passengers travelling on Government owned or Government contracted aircraft. Such policy to be effective henceforth."

In my opinion, the recording of such information is critical to an adequate control system for government air operations. Therefore, I must direct the attention of the House of Assembly to the government policy set out in that Minute of Council.

Department of Education

37. **Teachers' Payroll System.** In paragraph 30 of his 1979-80 Report, the Auditor General disclosed that an audit of the Teachers' Payroll System was in progress and that the initial stages of the audit had been completed. He noted that a management letter was issued on 12 December 1980 on the audit findings to that date. The Report disclosed that the most serious deficiency observed was the almost complete lack of internal control within the Teachers' Payroll System. The overall recommendation to the Department of Education was that it should, as soon as possible, undertake an extensive review of the entire Teachers' Payroll System with a view to evaluating it and taking corrective action where necessary.

As indicated in paragraph 44 of my 1980-81 Report, the final stage of the audit was designed using substantive audit procedures on a sample of cheque transactions that were selected from the payrolls for the period 1 September 1980 to 31 December 1980, using statistical sampling techniques.

The results of the audit procedures disclosed that:

— There were serious deficiencies in internal control over the payment of salaries of teachers.

— There was a lack of documentation in the files of the Teachers' Payroll Division to support the payments made to teachers.

— There was inadequate accounting for the salary payments.

— The legislation under which the payments were made was, in part, ambiguous, and, in some cases, was inconsistently applied or not adhered to by the Department.

The details of my concerns in these areas were made known to the Department in a management letter dated 14 September 1981.

In my 1980-81 Report, I also stated that, "Although I cannot conclude that the salary payments to teachers were materially incorrect, I firmly believe that I can conclude that the Department of Education cannot satisfy me that the salary payments made to teachers ... are correct. Therefore, I conclude that I cannot be satisfied with this system...."

I now report that the audit work performed for the 1981-82 financial year was much less extensive than for 1979-80 and 1980-81 financial years. The audit work consisted mainly of following up on the various points mentioned in the letters of 12 December 1980 and 14 September 1981. In my opinion, based on this audit work, as of 31 March 1982 few specific improvements have been made to the Teachers' Payroll System.

While I do acknowledge that the Department of Education has acted upon the major recommendation of the Auditor General's 1979-80 Report, in that it set up in March 1981 a Steering Committee and a Project Team to review the Teachers' Payroll System, I believe it is unfortunate that many of the recommendations of this Committee were not implemented as of 31 March 1982, and in fact only a few were implemented prior to 1 September 1982.

Therefore, once again I urge the Department of Education (with assistance from Treasury Board, the Department of Finance, and Newfoundland and Labrador Computer Services Limited) to take immediate action to correct the deficiencies in the Teachers' Payroll System.

I note that this matter was considered in some depth by the Public Accounts Committee during its meetings held in September 1982. I look forward to the report of the Committee to the House of Assembly on this matter.

38. **Unsatisfactory accounting for and control over the payment of teachers' payroll deductions.** In paragraph 45 of my 1980-81 Report I expressed concern over a refund of $152,202 that was received in the 1979-80 fiscal year on account of overpayment of teachers' payroll deductions. I stated that the Department was unable to provide my staff with adequate documentation to indicate whether the amount received was correct and that the Department did not reconcile, with its records, the figures on the "Discrepancy Notice" which it received from Revenue Canada Taxation. I also stated that without such a reconciliation the Department did not know why the differences existed between its records and those of Revenue Canada.

I also noted that a similar situation existed regarding $110,025 of unremitted payroll deductions relating to the 1975 calendar year. The Department paid this amount after being assessed by Revenue Canada Taxation. However, there was no documented evidence on file in the Department to indicate whether this amount was verified as correct. In fact, there was no record of any reconciliation of this amount to the Department's payroll records.

Audit work performed for the 1981-82 fiscal year disclosed that while the Department's staff did perform some work relative to the verification of the accuracy of the $152,202 and the $110,025, a number of differences identified by the staff have yet (1 September 1982) to be adequately resolved.

Audit work performed also revealed that for the 1981 calendar year there were unresolved differences between the amount which should have been remitted to Revenue Canada Taxation for various payroll deductions as per the T4 records and the amount which was actually remitted.

These concerns were brought to the attention of the Department in a letter dated 22 September 1982.

As noted in my 1980-81 Report, in my opinion, immediate action should be taken by the Department to:

(i) identify the reason for these discrepancies and reconcile the figures supplied by Revenue Canada Taxation with its own records; and

(ii) take appropriate action so that such discrepancies are resolved on a timely basis in future.

39. **Irregular payment of $738,762 for fire-insurance premiums on school buildings.** Minute of Council 591-'79 of 1 May 1979 ordered that, on the recommendation of the School Insurance Committee and representatives of the Federation of School Boards, the contract for school insurance (which, under the existing government policy, was being funded by the Province) be awarded to an insurance underwriter named in the Minute of Council.

With reference to the insurance contract, the Minute of Council provided that: "The policy to be non-cancellable for a period of three years with effect from April 1st., 1979, with a $1,000,000 deductible at an annual premium of $1,181,854 as outlined in the relevant Submission." The submission referred to was a Treasury Board Memorandum to the Executive Council dated 26 April 1979.

As stated in my 1980-81 Report, the audit of property-insurance premiums paid for the policy years 1979-80 and 1980-81, on the insurance policy referred to in Minute of Council 591-'79, disclosed excess payments of $125,000 and $445,616, respectively (net of Insurance Tax), over the authorized annual premium of $1,181,854. For 1981-82 my audit disclosed that property-insurance premiums paid were $168,146 (net of Insurance Tax) in excess of the authorized annual premium.

Officials of the Department of Education contend, in effect, that the excess payments for the three years, totalling $738,762, were properly authorized and made within legislative appropriations; and, the amounts paid were due the insurance underwriter as a result of changes in the insurance policy (which were negotiated subsequently to the date of Minute of Council 591-'79) to cover increased replacement values for the insured properties. However, in my opinion:

(i) The legislative appropriations sought by the Department of Education and voted by the legislature for 1980-81 and 1981-82, included provision for the excess amounts of $125,000 and $445,616 for 1980-81 and $168,146 for 1981-82, thus resulting in appropriations which were in excess of the annual amounts authorized by Minute of Council 591-'79.

(ii) It is questionable whether the negotiated changes in the insurance policy and the resulting payments of the excess premiums should have occurred at all, considering the existence, at the time, of tender specifications and the successful tenderer's proposal documents for fire insurance on school buildings for the three-year period 1 April 1979 to 31 March 1982.

I note in expressing the above opinion, that:

(i) There was no Insurance Contract executed relative to the property insurance coverage. It is, therefore, difficult, if not impossible to determine what the initial terms of the arrangement for insurance were and what the subsequently negotiated changes were, and their interrelationships.

(ii) The Insurance Division of Treasury Board was involved in the processes relative to the school insurance program. In a letter dated 30 April 1979 from the Secretary, Treasury Board to the School Insurance Committee, it was stated that "the Government has accepted your Committee's proposal regarding the Insurance Programs...." Also, the letter stated, "It is understood that the Policy wording is as per the Tender Specifications and that no change in the program is to be made without prior consultation with the Government's Insurance Manager."

For the financial year 1982-83 new tenders were called for an additional three years of fire insurance coverage. Authority for this expenditure was obtained by a Minute of Council. I note that this Minute of Council provided for increases in the premium in subsequent years to a maximum of 5 percent.

40. **Payment of tuition fees and allowances, totalling $6,533,627, without proper authority.** In my 1980-81 Report, paragraph 47, I commented on the payment of tuition fees and allowances without proper authority. I noted that the legislative authority to make regulations authorizing the payment of tuition fees and allowances comes from The University Fees and Allowances Act. The criteria for determining assistance under this Act were originally approved by the Lieutenant-Governor on 22 September 1966 and published in the Newfoundland Gazette of 27

September 1966. The regulations approved at that time were known as The University Student Aid Rules, 1966.

I note that these regulations were not filed with the Legislative Counsel as required by Section 17 of The Statutes and Subordinate Legislation Act. Therefore, under that Act, the 1966 regulations ceased to have any effect after 31 December 1978.

Since the criteria under which the Student Aid Program was administered for the 1981-82 financial year were not properly authorized, in my opinion the payments made under the program, amounting to $6,533,627, were made without proper authority.

I note that the Department agreed with the opinion as stated in my previous Report and has agreed to take corrective action.

41. **Disagreement, over the authority for the payment of salaries to teachers and administrative personnel, resolved.** Expenditures charged to Subdivisions 1303.01, Financial Assistance Programs, Salaries, Salaries of Teachers, Superintendents, etc.; 1303.02.01, Financial Assistance Programs, Personnel Costs, Canada Pension Plan — Teachers; and 1303.02.02, Financial Assistance Programs, Personnel Costs, Unemployment Insurance — Teachers, amounted to $209,074,167, $2,139,310 and $2,946,479, respectively, for the 1981-82 financial year. These expenditures were for salaries and fringe benefits of teachers and administrative personnel employed by school boards in the Province.

Section 92(1) of The Schools Act, Chapter 346, of the Revised Statutes of Newfoundland, 1970, provides for the payment of such salaries. It states that:

> "Subject to this Act and the regulations, the Department shall, from moneys set aside for that purpose by the Legislature, arrange for the payment of salaries of teachers and administrative personnel employed in colleges and schools maintained under this Act, and all such salaries shall be paid in accordance with a scale set forth in regulations approved by the Lieutenant-Governor in Council."

The audit results disclosed that there was no scale set forth in regulations approved by the Lieutenant-Governor in Council for the payment of salaries of teachers and administrative personnel for the 1981-82 financial year.

I note, however, that Section 13(1) of The Schools Act (Teachers' Salaries) Regulations, 1979, states that:

> "The basic salaries... and the bonuses to be paid to teachers and the circumstances in which they shall be paid are set out in the Collective Agreement and all teachers' salaries allocated from moneys provided by the Legislature shall be determined and paid in accordance with these Regulations."

I believe this section of the Regulations is in conflict with Section 92(1) of The Schools Act.

In my opinion, since no scale of salaries was set forth in regulations approved by the Lieutenant-Governor in Council, as required by Section 92(1) of The Schools Act, all payments of salaries of teachers and administrative personnel during the 1981-82 financial year, amounting to $214,159,956, were made without proper compliance with The Schools Act.

The Department of Education initially advised me that they had received a legal opinion from the Department of Justice on this matter. The opinion was that valid authority for the payment of salaries and bonuses existed. More recently, however, on 3 December 1982, the Department of Education advised me that they had received another legal opinion from the Department of Justice, which, in essence, agrees with my opinion, that a scale of salaries for teachers and administrative personnel should be set forth in regulations approved by the Lieutenant-Governor in Council. The Department also advised that action would be taken to have the scale of salaries set forth in regulations, as required under Section 92(1) of The Schools Act. Thus, my previously existing disagreement with the Department of Education on this matter has been resolved.

42. **Payment of public examination costs, totalling $411,399, without proper authority.** My audit of Subdivision 1304.04.04, Instruction and Curriculum Development, Operations, Examination Costs, for the 1981-82 financial year, disclosed payments of $411,399 for public examination costs. These payments were made to individuals involved in the supervising, marking, etc., of public examinations.

The legislative authority to make regulations authorizing the payment of remuneration to examiners and other persons appointed to conduct public examinations comes from Section 5(a) of The Education (Public Examinations) Act. The audit revealed that no regulations were made under this Act to provide the authority to make such payments. Therefore, in my opinion, payments totalling $411,399 for public examination costs were made without proper authority.

43. **Payment of teachers' salaries in excess of amount authorized.** The Teachers' Payroll Division of the Department of Education is responsible, among other things, for providing for the payment of salaries to teachers employed by the School Boards in the Province. Because of a change in the methods of calculating and paying the salaries of teachers, payments to teachers exceeded authorized amounts in the months of July and August, 1981 and 1982. Audit work on salaries paid to teachers in July and August 1982 revealed total excess payments of approximately $1,300,000. While adjustments may be necessary to this amount, in my opinion they would not significantly reduce it.

Prior to the previously mentioned change in methods, a portion of the salaries earned by teachers during the ten month period, September to June, was withheld from payment during this period. The amount withheld was subsequently paid during July and August. Due to the change, the amount paid to the teachers during July and August, in both 1981 and 1982, was in excess of the amount earned and withheld during the period September to June.

My audit disclosed that the change referred to was made on the basis of a memorandum, dated 26 June 1981, from the Director, Collective Bargaining Division, Treasury Board, to the Supervisor, Payroll and Grants, Department of Education. However, in my opinion the memorandum was not authority for the change in methods of calculating and paying the salaries of teachers.

In a letter to me, dated 25 October 1982, the Deputy Minister of Education stated that, "the Department agrees that the authority on which we (the Department) acted may have been inadequate. However, we have been assured by members of the Bargaining Committee that we have acted, and are acting as was agreed and intended by all parties to the Agreement (Collective Agreement with Teachers)." In addition on 17 January 1983, a Minute of Council was issued which approved the action taken by the Department of Education. However the explanation of the Department of Education and the Minute of Council still do not change my opinion that there was no authority for the action taken and the result was payments of teachers' salaries in excess of the amount authorized.

Department of Social Services

44. **Lack of control over Short-Term Social Assistance.** In paragraph 51 of my 1980-81 Report I disclosed the results of my review of the Department of Social Service's system of financial management and accounting control over payments made to short-term social assistance recipients for the year ended 31 March 1981.

In that paragraph, I concluded that the administrative and accounting system for Short-Term Social Assistance did not include sufficient controls to adequately prevent or detect errors in the payment of and the recording of short-term assistance. My concerns were that:

(i) transactions could be initiated and recorded without proper authorization;

(ii) the initial recording of a transaction or its conversion into a computer processing form could be incomplete, or entirely omitted;

(iii) inaccuracies could occur in the recording, conversion or error correction processes; and

(iv) the reconciliation of the short-term assistance bank account with the records of the Department was not adequately performed on a timely basis.

I now report that for the financial year 1981-82 I performed certain audit tests in an effort to determine whether there had been any significant improvement in the situation as reported in my 1980-81 Report.

Based on these tests, I have concluded that the system of financial management and accounting control over payments relating to Short-Term Social Assistance, for the 1981-82 financial year, was not adequate to ensure the completeness, accuracy and proper authorization of recorded expenditure.

In my opinion, immediate action is still required to correct the above situation.

45. **Overpayments of Social Assistance.** The Department of Social Services defines as accounts receivable which result from social assistance payments, "assistance issued for any reason, over and above that for which a recipient is eligible under the regulations." As at 31 March 1982, the Department's records indicated that there were 15,758 accounts receivable outstanding, resulting from overpayments of social assistance, for a total value of $4,135,599. Included in this amount were: 828 accounts in excess of $1,000; 49 accounts in excess of $5,000; and 8 accounts in excess of $10,000.

In paragraph 52 of my 1980-81 Report I reported that:

(i) I was unable to satisfy myself that the Department was actively pursuing the collection of its accounts receivable.

(ii) The records of the Department indicated that there were 1758 credit balances in accounts receivable. This indicated that collections of overpayments had been made in some cases without the corresponding account receivable having been set up. This also indicated that the amount reported by the Department as accounts receivable, at 31 March 1981, was understated by an amount which could only have been determined when reconciliation of those accounts had been completed.

For the 1981-82 financial year I performed certain audit tests in order to determine whether the above-noted deficiencies still existed.

In my opinion, based on these audit tests, the systems and procedures in effect in the Department of Social Services are still not adequate to ensure proper administrative and accounting control over recording and collection of amounts due to the Province as a result of overpayments of social assistance.

Department of Municipal Affairs

46. **Interim Subsidy Grants to municipalities not calculated in accordance with the Regulations.** In paragraph 73 of my 1980-81 Report, I outlined the method used by the Department of Municipal Affairs to compute Interim Subsidy Grants to municipalities, and expressed the opinion that the exclusion of certain municipal grants from the calculation of Interim Subsidy Grants is not in accordance with Regulation 6(1) of The Municipal Grants Act Regulations, 1980.

My audit for 1981-82 disclosed that the Interim Subsidy Grants for 1981 were based upon the 1980 grants, as provided for in the Regulations. Consequently, any Interim Subsidy Grants that were computed incorrectly for 1980 were also computed incorrectly for 1981. If no action is taken to correct this situation these grants will continue to be computed incorrectly, and paid, for a further period of three years.

47. **Failure to comply with Section 5 of The Municipal Grants Act.** In paragraph 74 of my 1980-81 Report, I reported that the Department of Municipal Affairs had failed to carry out the requirement of Section 5 of The Municipal Grants Act, in computing the Tax Incentive Grant paid to the City of Corner Brook for 1980. As a result, the City of Corner Brook was overpaid approximately $1,283,184. This overpayment resulted from the failure of the Department to reduce the grant of $1,6[illegible]9,093, as initially calculated, by provincial expenditures of $1,283,184 for police services rendered to the City of Corner Brook during the period 31 March 1980 to 31 March 1981.

I also reported that the Tax Incentive Grant, computed to be $4,636,972. for the City of St. John's was not paid to the City but was withheld pending a final decision on the amounts to be deducted under Section 5 of The Municipal Grants Act.

My audit of the 1981 Tax Incentive Grants for the Cities of Corner Brook and St. John's disclosed the following:

(i) The 1981 Tax Incentive Grant for the City of Corner Brook was computed by the Department of Municipal Affairs to be $1,649,174. This amount was paid and charged to the 1981-82 expenditure of the Province with no reduction being made for provincial expenditures, totalling $1,470,719, for police services rendered to the City of Corner Brook during the period 1 April 1981 to 31 March 1982. As a result the City was overpaid approximately $1,470,719 on its 1981 grant.

(ii) The 1981 Tax Incentive Grant for the City of St. John's was computed by the Department of Municipal Affairs to be $4,954,640. This amount was reduced by $4,651,989, representing the City's share of the fire department's expenses. The balance of $302,651 was paid to the City with no

> reduction being made for provincial expenditures for police services rendered to the City during the period 1 April 1981 to 31 March 1982. I note that the 1980 Tax Incentive Grant was treated in a similar manner.

In response to my enquiry for the 1980-81 financial year the Deputy Minister of Municipal Affairs, in a letter dated 5 January 1982, stated, "We agree that based on the present wording of The Municipal Grants Act, the tax incentive grant payable to the Cities of St. John's and Corner Brook should be decreased by provincial expenditures for police protection. The Cabinet has, however, decided that, because police protection in the Cities is basically a provincial policing function, in comparison with the enforcement of purely local by-laws in other municipalities by municipal enforcement officers, recoveries should not be effected. It is proposed to introduce retroactive amending legislation at the Spring session of the Legislature to reflect this policy."

Minute of Council 111-'82, dated 3 February 1982, ordered among other things that:

> "(1) in the determination of the Tax Incentive Grant for the City of St. John's and for the City of Corner Brook:
>
> (A) no recoveries be made from either of these Cities for any costs of police services; and
>
> (B) the office of the Legislative Counsel, in consultation with the Department of Municipal Affairs, take steps to ensure that Section 5 of The Municipal Grants Act is amended to delete any reference to recoveries of the costs of providing police services for the City of St. John's and/or the City of Corner Brook."

With respect to the provisions of the Minute of Council as outlined above, after obtaining advice from my legal counsel on the matter, it is my opinion that the provision set out in (1)(A) is clearly in contravention of The Municipal Grants Act and, accordingly, is null and void.

It is my opinion therefore, that notwithstanding the proposed intention as expressed by the Deputy Minister to introduce amending legislation, the Department of Municipal Affairs is legally bound to carry out the provisions of Section 5 of The Municipal Grants Act as it was enacted by the Legislature. For the Department to deliberately choose to ignore the Law, on the grounds that the Legislature will in the future be asked to change it, is, I suggest, rather presumptuous and should not be tolerated.

48. **Regulation ultra vires The Municipal Grants Act.** In paragraph 78 of my 1980-81 Report, I reported that there was no provision in The Municipal Grants Act which gives authority to make additional grants to municipalities as set out in Regulation 6 of The Municipal Grants Act Regulations, 1980. Therefore, in my opinion, Regulation 6 is ultra vires the authority given to the Lieutenant-Governor in Council by Section 12 of The Municipal Grants Act.

My audit disclosed that the Department of Municipal Affairs continued to pay, during 1981-82, additional grants to municipalities under the provision of Regulation 6 of the Municipal Grants Act Regulations, 1980.

Department of Culture, Recreation and Youth

49. **Undisclosed outstanding commitments under the Community Sports Facilities, Recreation Capital Grants Program.** In paragraph 28 of my 1980-81 Report, I drew attention to the matter of the Province's financial obligation relating to outstanding commitments for grants to various incorporated communities, rural areas and other groups, to assist with the construction of sports facilities, the purchase of equipment and for other items. I noted that even though grants had been committed prior to 31 March 1981, by the Department of Culture, Recreation and Youth, the Province's financial obligation relating to these outstanding commitments had not been disclosed in the Public Accounts of the Province.

My audit for the financial year 1981-82, disclosed that grants which had been committed under the Community Sports Facilities, Recreation Capital Grants Program prior to 31 March 1982, to be paid out during the next five years, totalled $3,256,747. However, the Province's financial obligation relating to these outstanding commitments has not been disclosed in the Public Accounts of the Province.

In my opinion, these commitments should have been reported in the Public Accounts of the Province for the year ended 31 March 1982.

50. **Understatement of expenditures of public funds and related revenue, relating to operations of Arts and Culture Centres.** In paragraph 56 of my 1980-81 Report, I reported that the Arts and Culture Centres followed an accounting procedure which effectively conceals, by understating, both the reported expenditures and the related revenues relating to the operations of these Centres. This understatement was accomplished through a system of treating certain payments as revenue refunds and charging them against the receipts of the Centres.

A review by my auditors disclosed that this procedure continued to be followed during the fiscal year 1981-82. As a result, expenditure reported under Subdivision 1806.04.05, Cultural Affairs, Operations: Arts and Culture Centres — Productions and Tours, as well as related revenue reported under Subdivision 1806.52.01, Cultural Affairs, Related Revenues, Provincial Sources: Fees, Rentals, etc., have been understated for 1981-82.

Although no final figure was determined by my auditors, a test examination of revenue refunds totalling $554,327, out of total revenue refunds of $729,593, disclosed that payments totalling $358,634 were charged against related revenue as revenue refunds, instead of being charged to expenditures.

This procedure of charging expenditures as revenue refunds is, in my opinion, irregular, since it circumvents the financial control which the Legislature has over the amounts appropriated for such services. Furthermore, the amounts provided in the approved Estimates are voted on a gross basis and expenditures are to be reported in the Public Accounts on the same basis.

In my opinion, these payments should not have been treated as revenue refunds but should have been properly classified as expenditures and reported as such in the Public Accounts of the Province. Furthermore, the treatment of these expenditures as revenue refunds is not in accordance with Section 22 of The Financial Administration Act, 1973, which requires that no issue of public money shall be made out of the Consolidated Revenue Fund, except under authority of the Legislature.

It is my understanding that the accounting procedure of treating certain payments as revenue refunds of the Arts and Culture Centres has been changed with effect from 1 April 1982. It is hoped that this change will, in future, result in the expenditures and related revenues pertaining to the Arts and Culture Centres being properly reported in the Public Accounts of the Province.

51. **Complimentary tickets issued to certain patrons of the Arts and Culture Centre, St. John's.** In paragraph 57 of my 1980-81 Report, I reported that the Arts and Culture Centre, St. John's, followed a practice of issuing tickets free of charge to certain patrons of the Centre. I also stated that there was no written policy governing the issue of complimentary tickets by the Arts and Culture Centre, St. John's, neither was there specific written authority authorizing the Director of Cultural Affairs or the personnel at the Centre to issue tickets to certain patrons free of charge.

A review by my auditors of the accounts of the Centre disclosed that the practice of issuing complimentary tickets as outlined in paragraph 57 of my 1980-81 Report, continued during the fiscal year 1981-82. The records of the Centre show that 3,990 complimentary tickets were issued for performances sponsored by the Centre during the year 1981-82. If these tickets had been sold, at the regular prices, the proceeds would have amounted to $28,922.

In my opinion, the issuing of complimentary tickets at the St. John's Arts and Culture Centre, or at other Arts and Culture Centres throughout the Province, should (a) be authorized by the proper authority and (b) be subject to a written policy which clearly establishes the terms and conditions under which such tickets may be issued and who is eligible to receive them. The present practice of allowing the Director of Cultural Affairs and two of his staff to exercise their discretion as to who should receive complimentary tickets is, in my opinion, unsatisfactory.

52. **Understatement of revenue and expenditure.** In paragraph 58 of my 1980-81 Report, I reported that for the Arts and Culture Centre, St. John's, service charges relating to chargex and mastercharge accounts were deducted from the revenue deposited before it was transferred to the Newfoundland Exchequer Bank Account.

A review by my auditors of the accounts of the Centre disclosed that this practice continued during the fiscal year 1981-82. As outlined in paragraph 58 of my 1980-81 Report, this resulted not only in the reported revenue for the Arts and Culture Centre being understated, but also in the expenditure of public funds (for service charges) without any appropriation by the Legislature.

In my opinion, the handling of public money in this manner is in contravention of Section 13 of The Financial Administration Act, 1973, which requires that all public money, unless otherwise provided by statute, shall be paid promptly to the credit of the Consolidated Revenue Fund in the manner prescribed by the Treasury Board.

During 1982-83 a revised procedure was implemented to handle service charges relating to chargex and mastercharge accounts. This procedure has the desired effect of reporting true revenues and expenditures arising from the operation of chargex and mastercharge accounts.

ACKNOWLEDGEMENTS

I wish to express, on behalf of myself and all staff of the Department of the Auditor General, my sincere thanks to officials of Government Departments, Crown Corporations, Municipalities and other entities, which I audited, for their understanding, co-operation and assistance during the course of the audits.

Also, I wish to thank the staff of the Department of the Auditor General for their support during the past year.

31 January 1983.

J.F. McGrath, C.A.,
Auditor General.

APPENDICES

I **Other Financial Information**

- Summary of revenue, expenditure and related revenue by department
- Receipts and payments after the close of the financial year
- Comparison of out-turn for the year with estimates approved by the Legislature
- Cash requirements, 1981-82
- Statement of changes in financial position
- Comparison of actual and estimated revenue, expenditure and related revenue
- Appropriations by the Legislature
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II **Crown Corporation and Other Audits**

- Crown Corporations, Boards, Authorities and Sundry Funds
- School Tax Authorities
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- City

III **Recommendations**

- "Improving Accountability — Canadian Public Accounts Committees and Legislative Auditors."

Appendix I

OTHER FINANCIAL INFORMATION

Summary of revenue, expenditure and related revenue by department

The summary for the year ended 31 March 1982, as prepared by the Department of Finance, and included in the Public Accounts as Statement No. 3, shows an out-turn for the year as follows:

	(thousands of dollars)
Total expenditure (net)	1,514,346
Total current account revenue	1,366,152
Excess of expenditure (net) over revenue for the year	148,194

The excess of expenditure over revenue for the year comprises net expenditure of $154,461,000 on capital account, and the surplus of $6,267,000 on current account.

A recapitulation of the totals shown in the summary of revenue, expenditure and related revenue by department is as follows:

Current Account

	(thousands of dollars)		
Revenue			1,366,152
Expenditure (net):			
Consolidated fund services (gross)	246,692		
Less: Related revenue	12,777	233,915	
Supply services (gross)	1,258,060*		
Less: Related revenue	132,090	1,125,970	1,359,885
Surplus on current account			6,267

Capital Account

	(thousands of dollars)	
Expenditure (net):		
Consolidated fund services		895
Supply services (gross)	194,064*	
Less: Related revenue	40,498	153,566
Net expenditure on capital account		154,461
Excess of net expenditure on capital account over surplus on current account		148,194

*Includes some statutory payments.

Receipts and payments after the close of the financial year

The amounts for related revenue on current and capital accounts include $13,854,000, representing amounts received from the Government of Canada during April 1982 and relating to the financial year 1981-82. Such inclusion is permitted by Section 16 of The Financial Administration Act, 1973.

The amounts of current and capital account expenditure include $66,708,000, representing payments made subsequent to 31 March 1982 relating to the financial year 1981-82. Such inclusion is permitted by Section 24 of The Financial Administration Act, 1973.

Comparison of out-turn for the year with estimates approved by the Legislature

The following summary compares actual amounts for the financial year 1981-82 with amounts included in Statement 1 (Summary of Borrowing Requirements and Sources of Funds) of the Estimates approved by the Legislature.

	Estimates	Actual	Increase (Decrease)
	(thousands of dollars)		
BUDGETARY REQUIREMENTS:			
Current Account:			
Gross Expenditure	1,504,958	1,504,752	(206)
Related Revenue	161,603	144,867	(16,736)
Net Expenditure	1,343,355	1,359,885	16,530
Revenue	1,353,758	1,366,152	12,394
Surplus	10,403	6,267	(4,136)
Capital Account:			
Gross Expenditure	222,977	194,959	(28,018)
Related Revenue	66,470	40,498	(25,972)
Net Expenditure	156,507	154,461	(2,046)
Total Budgetary Requirements	146,104	148,194	2,090
DEBT RETIREMENT:			
Redemptions	84,555	83,735	(820)
Sinking Funds	28,358	28,612	254
Total Debt Retirement	112,913	112,347	(566)
Total Budgetary Requirements and Debt Retirement	259,017	260,541	1,524

Cash requirements, 1981-82

The Estimates projected total cash requirements from borrowings for 1981-82 to be $259,017,000. The estimates and the actual borrowings are compared below:

	Estimates	Actual	Increase (Decrease)
	(thousands of dollars)		
General Borrowings	208,000	246,104	38,104
Canada Pension Plan	47,000	52,973	5,973
Government of Canada and other sources	4,017	481	(3,536)
	259,017	299,558	40,541

The funds provided from borrowings, $299,558,000, were more than the total cash requirements for actual net expenditures (payments) of $260,541,000 (comprising budgetary payments, $148,194,000 and debt retirement and sinking fund payments of $112,347,000). The difference of $39,017,000 was applied mainly to increase temporary investments and reduce the bank overdraft.

Statement of changes in financial position

The following tabulation shows the changes in financial position for the year ended 31 March 1982.

Funds provided by: (Note 1)		(thousands of dollars)
Cash surplus on current account:		
Surplus on current account per Public Accounts, Statement No. 3		6,267
Treasury bill issues (net of redemptions)		274
Issue of debentures — general borrowings	246,104	
— Canada Pension Plan	52,973	299,077
Canada Mortgage and Housing Corporation loans		481
Gain on redemption of bond issues		1,950
Excess sinking funds on redeemed bond issues returned to the Province		1,873
Redeposit of prior year's expenditure cheques		74
Big game licences — deferred revenue		186
		310,182

Funds used for:	(thousands of dollars)	
Net expenditure on capital accounts:		
Net expenditure per Public Accounts, Statement No. 3	154,461	
Add: Forgiveness on C.M.H.C. loans applied against capital expenditure	931	155,392
Decrease in bank overdraft — Bank of Montreal		11,088
Temporary investment purchases (net of sales) Term deposits		29,001
Debt redemption — debenture debt	72,439	
— C.M.H.C. loans	247	
— DREE loans	1,653	74,339
Sinking fund payments		28,612
Exchange losses (net)		6,859
Amortization of unrealized foreign exchange losses		4,410
Big game licences — prior year's deferred revenue		371
Close out of old bank accounts		7
Excess of suspense account payments over receipts		103
		310,182

Note 1: Funds refer to Bank of Montreal, bank account.

Comparison of actual and estimated revenue, expenditure and related revenue

The summary below shows differences, in total, between actual and estimated amounts for the year and the number of departments and sources in which they occurred:

	Actual more than estimated		Actual less than estimated	
	No. of Sources	**Amount** (thousands of dollars)	**No. of Sources**	**Amount** (thousands of dollars)
Current account revenue	1	41,096	2	28,702
	No. of Depts.		**No. of Depts.**	
Expenditure:				
Current Account	8	18,990	11	19,196
Capital Account	3	8,146	13	36,164
Related Revenue:				
Current Account	9	3,884	10	20,620
Capital Account	4	811	9	26,783

Table 1 shows differences by source, and Tables 2 to 5 show differences by department.

TABLE I

Current Account Revenue

(thousands of dollars)

Source	Estimates	Actual	Increase (Decrease)
Government of Canada	615,608	656,704	41,096
Provincial Tax Sources	647,075	626,949	(20,126)
Other Provincial Sources	91,075	82,499	(8,576)
	1,353,758	1,366,152	12,394

Note

1. Actual revenue from Provincial Tax Sources is net of refunds of taxes totalling $1,005,779.

TABLE 2

Current Account Expenditure

(thousands of dollars)

Head	Department	Estimates	Actual	Increase (Decrease)
I	Consolidated Fund Services	243,847	246,692	2,845
	Supply Services:			
II	Legislative	5,878	5,725	(153)
III	Executive Council	6,190	5,956	(234)
IV	Finance	20,656	21,032	376
V	Public Works and Services	19,081	18,253	(828)
VI	Development	20,512	17,343	(3,169)
VII	Mines and Energy	47,462	42,499	(4,963)
VIII	Fisheries	13,925	11,831	(2,094)
IX	Forest Resources and Lands	28,327	23,385	(4,942)
X	Rural, Agricultural and Northern Development	24,774	23,880	(894)
XI	Transportation	68,701	69,235	534
XII	Environment	2,616	2,312	(304)
XIII	Education	382,988	385,401	2,413
XIV	Social Services	142,240	140,947	(1,293)
XV	Health	345,026	351,227	6,201
XVI	Labour and Manpower	8,610	8,288	(322)
XVII	Municipal Affairs	52,668	55,991	3,323
XVIII	Culture, Recreation and Youth	21,554	21,879	325
XIX	Justice	49,903	52,876	2,973
		1,261,111	1,258,060	(3,051)
		1,504,958	1,504,752	(206)

TABLE 3

Current Account Related Revenue

(thousands of dollars)

Head	Department	Estimates	Actual	Increase (Decrease)
I	Consolidated Fund Services	22,053	12,777	(9,276)
	Supply Services:			
II	Legislative	166	176	10
III	Executive Council	139	70	(69)
IV	Finance	403	598	195
V	Public Works and Services	819	937	118
VI	Development	4,057	1,187	(2,870)
VII	Mines and Energy	5,702	3,665	(2,037)
VIII	Fisheries	3,813	2,790	(1,023)
IX	Forest Resources and Lands	13,305	9,314	(3,991)
X	Rural, Agricultural and Northern Development	12,163	12,367	204
XI	Transportation	3,830	4,129	299
XII	Environment	123	11	(112)
XIII	Education	19,941	21,250	1,309
XIV	Social Services	56,705	57,936	1,231
XV	Health	8,232	8,739	507
XVI	Labour and Manpower	5,039	4,951	(88)
XVII	Municipal Affairs	2,194	1,583	(611)
XVIII	Culture, Recreation and Youth	1,347	804	(543)
XIX	Justice	1,572	1,583	11
		139,550	132,090	(7,460)
		161,603	144,867	(16,736)

TABLE 4

Capital Account Expenditure

(thousands of dollars)

Head	Department	Estimates	Actual	Increase (Decrease)
I	Consolidated Fund Services	860	895	35
	Supply Services:			
IV	Finance	19,990	24,875	4,885
V	Public Works and Services	5,868	3,697	(2,171)
VI	Development	17,711	13,284	(4,427)
VII	Mines and Energy	8,424	8,228	(196)
VIII	Fisheries	14,747	7,530	(7,217)
IX	Forest Resources and Lands	4,426	2,618	(1,808)
X	Rural, Agricultural and Northern Development	7,345	5,582	(1,763)
XI	Transportation	52,384	44,485	(7,899)
XII	Environment	70	34	(36)
XIII	Education	49,084	52,310	3,226
XIV	Social Services	996	637	(359)
XV	Health	11,812	11,694	(118)
XVII	Municipal Affairs	17,693	11,780	(5,913)
XVIII	Culture, Recreation and Youth	8,404	4,223	(4,181)
XIX	Justice	3,163	3,087	(76)
		222,117	194,064	(28,053)
		222,977	194,959	(28,018)

TABLE 5

Capital Account Related Revenue

(thousands of dollars)

Head	Department	Estimates	Actual	Increase (Decrease)
	Supply Services:			
IV	Finance	9,526	9,834	308
V	Public Works and Services	40	423	383
VI	Development	9,463	2,417	(7,046)
VII	Mines and Energy	742	572	(170)
VIII	Fisheries	5,380	421	(4,959)
IX	Forest Resources and Lands	4,105	2,292	(1,813)
X	Rural, Agricultural and Northern Development	6,105	4,287	(1,818)
XI	Transportation	20,825	14,638	(6,187)
XIII	Education	350	375	25
XIV	Social Services	65	46	(19)
XV	Health	221	316	95
XVII	Municipal Affairs	5,272	3,444	(1,828)
XVIII	Culture, Recreation and Youth	4,376	1,433	(2,943)
		66,470	40,498	(25,972)

Appropriations by the Legislature

Appropriations provided by the Legislature for the financial year 1981-82 including supplementary supply, totalled $1,512,586,800 as follows:

	(thousands of dollars)
The Interim Supply Act, 1981, enacted 7 April 1981	448,400
The Supply Act, 1981, enacted 30 June 1981	1,029,486
The Supplementary Supply Act, 1982, enacted 3 December 1982	34,701
Total appropriations	1,512,587

Subsequent to enactment of The Supply Act of 1981, spending authority for amounts totalling $34,701,000 was provided by special warrants issued by the Lieutenant-Governor under the provisions of Section 28 of The Financial Administration Act, 1973. In all, twenty special warrants were issued up to March 1982: seventeen under Section 28(2), and three under Section 28(3) of the Act. The Supplementary Supply Act, 1982 sanctioned the amounts provided by the special warrants.

Unexpended balances of appropriations

Of the $1,5[illegible]2,586,800 appropriations available in respect of expenditure for the year ended 31 March 1982, $65,879,522 remained unexpended.

In compliance with Section 24 of The Financial Administration Act, 1973, balances comprising this amount lapsed and were written off.

The lapsed balances are tabulated below by department.

Head	Department	Current Account	Capital Account	Total
			(thousands of dollars)	
I	Consolidated Fund Services	48	—	48
II	Legislative	233	—	233
III	Executive Council	802	—	802
IV	Finance	(268)	1,769	1,501
V	Public Works and Services	1,325	4,052	5,377
VI	Development	4,075	4,926	9,001
VII	Mines and Energy	4,606	196	4,802
VIII	Fisheries	2,083	7,217	9,300
IX	Forest Resources and Lands	4,640	1,808	6,448
X	Rural, Agricultural and Northern Development	1,113	1,763	2,876
XI	Transportation	80	8,087	8,167
XII	Environment	469	36	505
XIII	Education	1,031	950	1,981
XIV	Social Services	2,512	1	2,513
XV	Health	1,635	536	2,171
XVI	Labour and Manpower	344	—	344
XVII	Municipal Affairs	(1,117)	6,028	4,911
XVIII	Culture, Recreation and Youth	17	4,291	4,308
XIX	Justice	480	112	592
		24,108	41,772	65,880

Appendix II

CROWN CORPORATION AND OTHER AUDITS

Crown Corporations, Boards, Authorities and Sundry Funds:

Atlantic Provinces Special Education Authority Administration*
Atlantic Provinces Special Education Authority Atlantic Provinces Resource Centre for the Hearing Handicapped*
Bay St. George Community College
Bell Island Hospital Building Corporation Limited
B.L.C. Building Corporation Limited
Canada Games Park Commission
C.A. Pippy Park Commission
Centre for Cold Ocean Resources Engineering
College of Fisheries, Navigation, Marine Engineering and Electronics
College of Trades and Technology
Consolidated Sinking Fund
Corner Brook Hospital Buildings Corporation Limited
Farm Development Loan Board
Feed Mill Building Company Limited
Fisheries Loan Board of Newfoundland
Gander Development Corporation
Gander Hospital Corporation Limited
Grace Hospital Extension Corporation Limited
Grand Falls Hospital Corporation Limited
Harmon Corporation
Hotel Buildings Limited
Livestock Owners Compensation Board
Memorial University of Newfoundland
Memorial University of Newfoundland Building Corporation Limited
Mooring Cove Building Company Limited
Motor Vehicle Accident Security Account
Newfoundland and Labrador Arts Council
Newfoundland and Labrador Computer Services Limited
Newfoundland and Labrador Housing Corporation
Newfoundland Crop Insurance Agency

Newfoundland Farm Products Corporation
Newfoundland Government Building Corporation Limited
Newfoundland Industrial Development Corporation
Newfoundland Legal Aid Commission
Newfoundland Liquor Corporation
Newfoundland Liquor Licensing Board
Newfoundland Medical Care Commission
Newfoundland Municipal Financing Corporation
Newfoundland Municipal Financing Corporation Sinking Funds
Northern Hospitals Building Corporation Limited
Nurses Training School Building Corporation Limited
Pepperrell Hospital Reconstruction Corporation Limited
Power Distribution District of Newfoundland and Labrador
Province of Newfoundland Pooled Pension Fund
Provincial Advisory Council on the Status of Women — Newfoundland and Labrador
Public Accountants Licensing Board
Public Libraries Board
Registrar of the Supreme Court of Newfoundland
St. John's Infirmary Building Corporation Limited
St. John's Memorial Stadium Commission
St. John's Residential Tenancies Board
School Insurance Committee
Technical College Building Corporation Limited
Vocational Schools (Western) Building Corporation Limited

*Joint audit with the Auditors General of New Brunswick, Nova Scotia and Prince Edward Island.

School Tax Authorities:

Bay D'Espoir
Bay St. George
Burin Peninsula
Central Labrador
Channel-Port aux Basques
Conception Bay South
Corner Brook
Deer Lake
Exploits Valley
Ferryland
Green Bay
Labrador West
Notre Dame
Placentia-St. Mary's
Port au Port
Regional District #1
St. Barbe South
St. John's
Trinity-Conception
Vinland

Municipalities:

Admiral's Beach
Arnold's Cove
Avondale
Badger
Bay Roberts
Benoit's Cove
Bishops Cove
Bonavista
Branch
Brigus
Carbonear
Chance Cove
Chapel Arm
Clarke's Beach
Colliers
Come by Chance
Conception Bay South
Conception Harbour
Cox's Cove
Cupids
Dark Cove
Deer Lake

Dover
Dunville
Eastport
Elliston
Englee
Fermeuse
Ferryland
Flatrock
Fox Cove - Mortier
Fox Harbour
Freshwater
Gaskiers
Gillams
Glenwood
Goulds
Hampden
Harbour Grace
Holyrood
Howley
Irishtown
Jerseyside
King's Point
Lamaline
Lark Harbour
Leading Tickles West
Little Burnt Bay
Little Catalina
Long Harbour
Lord's Cove
Lushes Bight-Beaumont-Beaumont North
Main Brook
McIver's
Meadows
Melrose
Mount Carmel
Mount Moriah
Musgravetown
Norman's Cove
Old Perlican
Paradise
Peterview
Petty Harbour
Placentia
Portugal Cove
Pouch Cove
Renews-Cappahayden
Riverhead
Roddickton
St. Brendan's
St. Bride's
St. Joseph's
St. Mary's
St. Phillip's
St. Thomas
Salvage
Sandy Cove
South Brook
South River
Sunnyside
Tilton
Torbay
Trepassey
Upper Island Cove
Wabana
Wabush
Wedgewood Park
Westport
Whitbourne

City:

City of St. John's

APPENDIX III

RECOMMENDATIONS

"Improving Accountability — Canadian Public Accounts Committees and Legislative Auditors."

Note: The following are the 69 recommendations included in the 1981 Canadian Comprehensive Auditing Foundation Report entitled as above-noted. I believe that these recommendations should receive further consideration by both the Auditor General and the Public Accounts Committee, in relation to their duties and responsibilities to the House of Assembly. I refer to them in paragraph 15 of my Report.

Appendix III

RECOMMENDATIONS

"Improving Accountability — Canadian Public Accounts Committees and Legislative Auditors."

1. Each Public Accounts Committee prepare and adopt a formal written statement that describes the committee's role and responsibilities.

2. The written statement of role and responsibilities comprise a general statement of purpose and a list of issues that the committee is to examine, assess, report on to the legislature, and follow up with the administration, including:

   — the reliability and appropriateness of information in the Public Accounts to provide a full and fair accounting of operations and financial transactions;

   — the collection of, and proper accounting for, all taxes and other revenues due;

   — the maintenance of expenditures within the limits and for the purposes authorized by the legislature;

   — the adequacy of safeguards to protect assets from loss, waste and misappropriation;

   — the regard for economy in the acquisition of goods and services;

   — the regard for efficiency in operations; and

   — the effectiveness of programs in achieving their stated objectives.

3. Provision be made for the automatic and permanent referral to Public Accounts Committees of both the Public Accounts and the Auditor's report as soon as they become available.

4. Public Accounts Committees recognize their capacity to investigate any matter that is within their terms of reference.

5. Ministers be called as witnesses before Public Accounts Committees only when they have been personally involved in decisions under examination.

6. Chairmen of Public Accounts Committees explain to witnesses their legal position in regard to future actions that may arise from testimony.

7. Provision be made to allow Public Accounts Committees to meet whether the House is in session, recessed or prorogued.

8. Public Accounts Committees be limited to between 5 and 11 members.

9. Public Accounts Committees be appointed for the full term of the legislature, and not session by session.

10. Chairmen of Public Accounts Committees be members of the opposition.

11. Chairmen play a leading role in all aspects of committee work and participate in the questioning of witnesses and in other committee deliberations.

12. Chairmen of Public Accounts Committees serve for the life of a legislature or until replaced.

13. Committees elect vice-chairmen from among the government members.

14. Larger Public Accounts Committees appoint a steering committee to plan the work and to bring forward drafts of committee reports.

15. Ministers not be appointed as members of Public Accounts Committees.

16. One clerk, who gives first priority to these duties, be assigned to serve the Public Accounts Committee.

17. Research assistance be provided to Public Accounts Committees.

18. Consideration be given to compensating members of Public Accounts Committees for their attendance at meetings held when the legislature is not in session.

19. Consideration be given to appropriate financial recognition for the extra work and responsibilities assumed by the chairmen of Public Accounts Committees.

20. All Public Accounts Committee meetings for hearing testimony be open to the press and public, except when evidence of a particularly sensitive nature is to be given.

21. Meetings for planning future work, briefings, reviewing progress and drafting reports be held in camera.

22. Public Accounts Committees plan, in general terms, the work to be undertaken at the beginning of each session, and prepare formal agendas for public distribution at least one week ahead of each meeting.

23. Committees arrange for suitable briefing material to be available to members prior to hearings, and if necessary set time aside to review it.

24. A verbatim transcript of Public Accounts Committee hearings be prepared and published promptly.

25. Committees keep brief, formal minutes of proceedings.

26. Suitable meeting space, with appropriate facilities, be available to Public Accounts Committees.

27. Public Accounts Committees schedule sufficient, regular meetings to discharge their responsibilities.

28. Provision be made for legislators who are not members of Public Accounts Committees to attend meetings and participate in the questioning of witnesses, but not to vote.

29. Procedures for questioning witnesses be adopted that permit productive lines of questioning to be taken to their conclusion and allow all members an opportunity to participate.

30. Public Accounts Committees concentrate their attention on significant issues of management and financial administration rather than on isolated, unimportant, individual transactions.

31. Public Accounts Committees prepare substantive reports at least annually containing a summary of findings, a statement of conclusions, and recommendations for action to be taken by the government.

32. Wherever possible, Public Accounts Committee reports be arrived at through a consensus of all members of the committee.

33. Legislatures set aside time to debate the reports of Public Accounts Committees at least annually.

34. Public Accounts Committees adopt an effective procedure for following up their recommendations with the administration.

35. Auditors be required by legislation to express an opinion on the financial statements and the accounting policies underlying them.

36. Legislation specifically give Auditors responsibility for reporting on the adequacy of the information provided to the legislature in the Estimates and Public Accounts.

37. The legislation establishing the mandate of Auditors specifically include an examination and reporting on value-for-money issues, including regard for economy and efficiency in operations and procedures for evaluating and reporting on the effectiveness of programs in meeting their objectives.

38. Legislation provide that Auditors accept specific assignments from their legislatures, provided these do not take precedence over other duties assigned by statute.

39. Legislation provide that Auditors accept direction by the government to perform audits only if in their opinion such work would not interfere unduly with the performance of their regular duties.

40. Auditors not be responsible for any aspect of the government's financial administration including the pre-audit of expenditures.

41. Legislation make specific provision for the confidentiality of the Auditor's working papers.

42. Auditors be given legislative authority to obtain any information or documents they require from Crown organizations or their auditors, and to conduct any further examinations that they deem necessary.

43. Given a sufficient improvement in the timeliness of completing government accounts, Auditors work toward the goal of completing their annual reports within six months after the fiscal year end, and have their opinions and comments on the financial statements incorporated in the Public Accounts.

44. Auditors' annual reports be released to members of the legislature and to the public as soon as they are available, regardless of whether they have been tabled in the legislature.

45. The Auditor's annual report be presented to the Speaker, who shall table it in the legislature at the earliest opportunity.

46. Wherever possible and appropriate audit reports incorporate responses by the audited organizations to the Auditor's comments and recommendations.

47. Legislation provide that Auditors need not report matters that, in their opinion, are inconsequential.

48. Auditors follow up the recommendations made in their reports and ensure that the responses are made known to the Public Accounts Committees.

49. Statutory provision be made for Auditors to make special reports to the legislature on matters of urgency and importance.

50. Legislation clearly establish Auditors as officers of the legislature.

51. An objective, rigorous search process be used in filling a vacancy in the Auditor's position.

52. Mechanisms be devised to ensure that the individual appointed to the position of Auditor is acceptable to both government and opposition members of the legislature.

53. Statutory provision be made for filling a temporary vacancy in the office of Auditor, and such provision include safeguards to prevent interim appointments for unduly extended periods of time.

54. Auditors be appointed for a fixed, non-renewable term of no more than ten years.

55. The Auditor's salary be tied by statute to that of top public servants.

56. Provision be made for a review of the Auditor's budget by a representative group of legislators before it is presented to the House for approval.

57. Legislative provision be made for a special report to the legislature by Auditors in whose opinion the resources provided for the operation of their offices are insufficient.

58. Auditors have sufficient independence from central administrative controls to ensure that they can organize, staff and manage their offices and engage outside expertise as they see fit, within their budgets and within the provisions of legislation designed to protect the rights of public servants.

59. Legislative provision be made for an audit of the audit office, conducted by a qualified auditor who is not an employee of the Crown, with the results made available to the legislature.

60. Separate legislation be enacted dealing with the Auditor and the audit office.

61. A committee of senior representatives of all recognized parties in the House, including at least one minister, be given responsibility for approving the Auditor's budget for presentation to the House, for appointing and considering the reports of the Auditor's auditor, and for such other duties regarding the operation of the audit office as may be deemed appropriate.

62. Public Accounts Committees set aside time to familiarize themselves with the nature of the work and the responsibilities of the audit office, within the context of government financial administration.

63. Auditors and/or members of the audit staff attend all hearings of Public Accounts Committees to act and be used as a source of expert advice to the committees.

64. Public Accounts Committees make use of Auditors as advisers while preparing their agendas and reports and in briefings prior to their hearings.

65. Auditors discuss the general subject of the format and style of their reports with Public Accounts Committees.

66. Auditors prepare their reports with the needs of Public Accounts Committees in mind.

67. Auditors consider issuing separate reports on special studies or comprehensive audits as they are completed.

68. Public Accounts Committees be given the power to instruct Auditors, by resolution, to conduct specific examinations, provided that such assignments do not unduly interfere with the regular duties of the audit offices.

69. Public Accounts Committees discuss with Auditors the most appropriate manner of using the services of the audit offices to follow up committee recommendations.

Number/
Numéro

4

PROVINCE OF NEWFOUNDLAND

REPORT OF THE AUDITOR GENERAL
TO THE HOUSE OF ASSEMBLY
for the
FINANCIAL YEAR ENDED
31 MARCH 1983

PRINTED UNDER THE AUTHORITY OF THE HOUSE OF ASSEMBLY

ST. JOHN'S, NEWFOUNDLAND

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GOVERNMENT OF NEWFOUNDLAND AND LABRADOR
DEPARTMENT OF THE AUDITOR GENERAL

November, 1983

The Honourable J.F. Collins, F.R.C.P.(E.),

Minister of Finance.

Sir:

In compliance with The Financial Administration Act, 1973, I have the honour to submit herewith, for transmission to the House of Assembly, the Public Accounts of the Province of Newfoundland for the financial year ended 31 March 1983 accompanied by my Report thereon.

Respectfully submitted,

J.F. McGRATH, C.A.,
Auditor General.

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REPORT OF THE AUDITOR GENERAL

INTRODUCTION

In compliance with the requirements of Sections 62 and 67 of The Financial Administration Act (Statutes of Newfoundland, 1973, No. 86), I submit my Report to the House of Assembly on the results of my examination and audit of the accounts and financial statements of the Province of Newfoundland for the financial year ended 31 March 1983.

The Public Accounts

2. Section 55 of The Financial Administration Act, 1973 reads:

"55. –(1) The Comptroller General of Finance shall as soon as possible after the end of each fiscal year prepare a report, to be called the Public Accounts, and shall submit it for audit by the Auditor General and onward transmission to the Minister for submission to the House of Assembly.

(2) The Public Accounts shall show in respect of the fiscal year to which they relate

(a) the state of the public debt;

(b) the revenue and expenditure;

(c) all compromises, remissions, refunds and amounts written off; and

(d) such other accounts and statements as may under good accounting practice be required to show the financial position of the province at the end of the fiscal year."

Financial Statements of the Province for 1982-83

3. The financial statements of the Province, submitted for audit by the Comptroller General of Finance in compliance with Section 55(1) of The Financial Administration Act, 1973, are listed in the Table of Contents of the volume of Public Accounts for 1982-83 under the following captions:

Statement of Assets and Liabilities

Consolidated Revenue Fund – Statement of Receipts and Payments

Revenue, Expenditure and Related Revenue

AUDITOR GENERAL'S OPINION

Accounts examined

4. In addition to my examination, from time to time, of the various accounts of the several departments, I have examined the accounts of the Province and the financial statements with respect to these accounts which have been prepared under the direction of the Comptroller General of Finance and to which I have referred in paragraph 3. I have received all the information and explanations I have required.

Scope of examination

5. My examination included a general review of the accounting procedures and such tests of the accounting records and other supporting evidence as I considered necessary in the circumstances.

Departmental accounts for the year ended 31 March 1983 were examined and tested to comply with the requirements of The Financial Administration Act, 1973:

(i) Current Account Revenue and Related Revenue accounts were examined to comply with Section 61 of the Act, which reads: "The Auditor General shall satisfy himself that all public money is being fully accounted for and shall examine at his discretion the accounts for all persons charged with the collection and management of public money."

(ii) Expenditure accounts were examined to comply with Section 60(1) of the Act, which reads: "The Auditor General shall examine periodically the accounts of all departments and shall take such further steps as he may deem necessary to satisfy himself that the accounts are faithfully and properly kept and that money expended has been applied, subject to this Act, to the purposes for which it was appropriated."

(iii) The accounts of the province and the related financial statements were examined and audited to comply with the requirements of Section 62(1) of the Act, which reads: "The Auditor General shall, besides examining from time to time the various accounts of the several departments as provided for by this Act, examine and audit the accounts of the province for each fiscal year and for that purpose statements with respect to such accounts shall be prepared by such persons as the Comptroller General may direct."

The statements referred to in Section 62(1) of the Act are listed in Section 62(2) of the Act, as follows:

(a) accounts of all receipts forming the Consolidated Revenue Fund;

(b) accounts of all expenditures made from the Consolidated Revenue Fund;

(c) accounts current with the several banks and fiscal agents of the province;

(d) accounts relating to the raising or redemption of loans;

(e) accounts relating to sinking funds;

(f) accounts with other governments;

(g) accounts held in trust for others; and

(h) all other public accounts.

Opinion

6. In accordance with the requirements of Section 62(3) of The Financial Administration Act, 1973, I report as follows on the results of my examination and audit of the accounts and financial statements of the province for the year ended 31 March 1983.

In my opinion,

(a) proper books of accounts have been kept by the province;

(b) the financial statements of the province

  (i) were prepared on a basis consistent with that of the preceding year and are in agreement with the books of account,

  (ii) in the case of the balance sheet, present fairly the state of the affairs of the province as at the end of the fiscal year,

  (iii) in the case of the statement of revenues and expenditures, present fairly the revenues and expenditures of the province for the fiscal year, and

  (iv) in the case of the Consolidated Revenue Fund, the statement of receipts and payments present fairly the receipts and payments of the Consolidated Revenue Fund for the fiscal year.

GENERAL MATTERS

7. **Foreword.** This audit report is submitted to the House of Assembly in accordance with the provisions of The Financial Administration Act, 1973. It describes the background of my position, presents the required audit opinion on the financial statements of the Province and includes detailed comments as I deem necessary on these financial statements. It also includes other comments and financial information which I consider should be reported to the Legislature.

8. **Financial Statements.** Financial statements are prepared for the purpose of providing summarized information as to the financial position of an organization at a given point in time, and the results of its financial activities over a specified period. The Public Accounts are the medium by which this information is provided for the Province of Newfoundland.

The magnitude of financial operations summarized in the Public Accounts, and the special nature of the accountability of governments to the people they represent, impose a great responsibility on those concerned with the proper maintenance of the records on which they are based and the presentation of the results in the most accurate and clearly understandable form possible. This responsibility rests with the Comptroller General of Finance, who is the chief accounting officer of the Government. Responsibility for the accounts and financial statements of public bodies rests with the management of those bodies. Representations in the financial statements of the Government and of the public bodies are therefore those of the Government and of the managements of the public bodies.

9. **Function of the Auditor General.** Governments have long felt the need to appoint an officer independent of the government of the day and of public officials and employees, to carry out an examination of the public accounts, and report directly to the elected legislative entity. The practice is international, and Canada has had an Audit Office since 1878. All of the provinces have, over the years, established such offices. I am an officer of the Legislature, appointed by the Lieutenant-Governor of the Province of Newfoundland. I am independent of the Government, and report to the House of Assembly.

One of the primary functions of an auditor is to report on the representations made by management in the financial statements. Such financial statements are a report by management of its stewardship. In the case of a provincial government, the management is the government of the day. The financial statements are embodied in the Public Accounts submitted to the House of Assembly.

To carry out this function, the auditor examines such audit evidence as is deemed appropriate and is available. The examination is conducted in accordance with professionally established generally accepted auditing standards. The Canadian Institute of Chartered Accountants pronounces upon these standards. On the basis of the evidence examined, the auditor endeavours to arrive at an opinion as to the credibility of management's representations, and as to the degree of their compliance with established accounting principles. In most activities other than those of governments, these are known as "generally accepted accounting principles." Because generally accepted accounting principles have not been established for governments, it is usual to report on the degree of compliance with stated accounting policies.

Under early legislation of other government jurisdictions, it was usual to restrict the duties required of legislative auditors to those described in the previous paragraph. More recently it has become accepted that they may, or are required to, extend their audit functions beyond those traditionally required for the expression of an opinion, in order to provide additional information for the improvement of financial management. The concept has also evolved that legislative auditors may or should extend the scope of their work to include assessments of the degree to which programs are economically and efficiently administered and the appropriateness of the basis of accounting for fair presentation in the Public Accounts. These extended duties will, I hope, be given to me under a new Auditor General Act.

10. **Timetable for preparation and submission of the Auditor General's Annual Report to the Legislature.** The timetable followed in the preparation and submission of the Annual Report of the Auditor General has followed a standard pattern for a number of years. While I have been fulfilling the Legislative requirement with regard to tabling my Annual Report as required under The Financial Administration Act, 1973, I am very concerned by the fact that many audit observations contained therein are brought to the attention of the Legislature months after discovery.

The essential issue respecting completion and presentation of the Auditor's Annual Report is that it be prepared and made public on a timely basis.

It is my own feeling that the Annual Report of the Auditor General should be completed and available to the Members of the House of Assembly within six months after the financial year-end of the Province.

This year, I decided it should and would be completed as soon after September 30 as possible. Accordingly, I directed my staff to cease audit work on the Public Accounts of the Province for 1982-83 much sooner than had been the previous practice of this Department. Consequently, this year my Annual Report is available to be tabled during the Fall Session of the Legislature.

My Annual Report is used by two distinct groups, members of the Legislature and other users of the Province's financial statements. I felt it was imperative that a determined effort be made to provide my report on a more timely basis so that it would be of greater assistance to both groups.

More timely reporting will assist members of the Legislature in their role as guardians of the public purse and it will also provide other users with more current financial information on which to base decisions.

11. **Federal-provincial cost sharing claims.** In addition to my other responsibilities, I am required to audit and express an opinion on claims submitted by the Province to the Government of Canada under various federal-provincial cost sharing agreements.

During the financial year 1982-83, in connection with the General Development Agreement between Canada and the Province, I examined a total of 450 claims, covering 13 separate subsidiary agreements which pertained to a total of 82 projects. These agreements, between the two governments, involved 10 different provincial government departments.

In addition to the above, I examine and express an opinion on claims relating to the following agreements.

Administered by the Department of Rural, Agricultural and Northern Development:

Canada Newfoundland Native Peoples of Conne River Agreement;

Canada Newfoundland Native Peoples of Labrador Agreement.

Administered by the Department of Social Services:

Vocational Rehabilitation of Disabled Persons Agreement;

Contribution Agreement ... in respect of a General Design and Feasibility Study Project for an integrated Departmental program delivery Management Information Section;

Canada Assistance Plan Agreement.

Administered through the Department of Education:

Canada Newfoundland Manpower Training Agreement;

Adult Occupational Training Agreement.

It is my responsibility to ascertain that the terms of the applicable agreement have been complied with by the various departments, and that the amounts being claimed for cost sharing are correct and in accordance with the agreement.

I am pleased to report that for the financial year 1982-83, I found, in general, that the claims were reasonably well prepared, requiring few adjustments as a result of my audits.

12. **Crown corporation and other audits.** In addition to auditing the Public Accounts of the Province of Newfoundland, the Auditor General is responsible for numerous other auidits. These include the audits of certain Crown Corporations, Boards, Authorities and Sundry Funds administered by the Province, the City of St. John's and certain School

Tax Authorities and Municipalities. These additional audits, some of which are performed from the Corner Brook Office of my Department, are listed in Appendix II of my Report.

In the case of Crown Corporations, Boards, Authorities and Sundry Funds administered by the Province, my audits include fourteen Crown Corporations, twenty Boards, Authorities and Commissions, sixteen Building Corporations, the three Colleges and the University. As part of these audits, I express my opinion on the financial statements and, where necessary, issue a management letter. This letter includes any suggestions I might have for improvements in the financial management system and/or draws attention to any matters which arose as a result of my audit.

As at 31 March 1983, I was responsible for the audit of ninety municipalities and the City of St. John's. As part of these audits, I express an opinion on the financial statements of the municipality, issue the reports required under Section 85 of The Municipalities Act, 1979, or under Section 348 of The City of St. John's Act and, where necessary, issue a management letter.

In view of the resources required to complete this number of municipal audits and considering that the services of local practicing Chartered Accounting firms are often available, I am presently reviewing my role in the municipal audit field.

I also audit twenty School Tax Authorities. As part of these audits, I express an opinion on the financial statements of the Authority, issue the report required under Section 24(4) of The Local School Tax Act, 1970, and, where necessary, issue a management letter.

13. **Development of a Computer Audit Capability.** Over the past several years I have been reporting on my Department's progress in developing a computer audit capability. An inventory of my current resources in the computer audit area includes:

Two trained, experienced audit specialists providing in-house consulting and audit assistance;

All senior and management staff with formal training and varying levels of practical experience in computer auditing;

A departmental Audit Policy to provide overall direction and assign responsibility;

Forms, procedures and methodology for conducting audits;

In-house access to a variety of computer audit software;

Access to outside computer audit consultants.

These resources are now being used extensively by my Department to provide computer audit services in such areas as data centre reviews, evaluation of computer application controls, computer conversion audits and computer assisted audit techniques.

Based on a review of the foregoing, I now conclude that I have reached my objective of developing an in-house computer audit capability. Consequently, in future reports, I will not be commenting on the on-going development of this project. I will instead report on specific projects undertaken by my Department in the computer audit area. An examination of the audit use of micro-computers and a review of the new Financial Management Information System (F.M.I.S.) now in use at the Department of Finance are examples of two such projects now being considered.

In concluding my final report on the development of a computer audit capability, I wish to acknowledge the valuable contributions made to this project from several sources. In particular, I would like to thank the Auditor General of Canada, the Auditor General of Alberta and the Provincial Auditor of Saskatchewan for their assistance and encouragement to my staff throughout the development process. I also wish to thank Newfoundland and Labrador Computer Services Limited for their constant support of my Department's efforts on this project.

14. **Guide on Financial Administration.** As a follow-up to paragraph 14 of my 1981-82 Report, I note that to 1 September 1983, twelve of the intended fourteen chapters of the Guide have been issued. The two chapters yet to be released are:

Chapter XI – Financial Management Information System;

Chapter XII – The Public Accounts.

I note that the official title of the Guide is "Government of Newfoundland and Labrador, Management Manual, Volume 1, Financial Policy and Procedures."

I also note that paragraph 14 of my 1981-82 Report was considered by the Public Accounts Committee at its meeting on 26 May 1983. I look forward to any recommendation which the Committee may make on this item in its report to the House of Assembly for the financial year ended 31 March 1982.

15. **Canadian Comprehensive Auditing Foundation.** The Canadian Comprehensive Auditing Foundation was established in 1980 as a national, non-profit organization – an autonomous body devoted to the development of comprehensive auditing. The Foundation was created out of the combined interest of Canadian legislative auditors, senior representatives of leading firms in accounting and management consulting, the internal audit and the academic communities.

The main objective of the Foundation is to serve as a focal point for collecting and communicating comprehensive auditing knowledge and experience. To meet this objective, the Foundation:

– disseminates comprehensive auditing methodology, and designs and organizes professional development programs to promote an understanding of the concepts and applications of comprehensive auditing; and

- conducts research and fosters the development of management practices designed to ensure economy, efficiency and effectiveness in the management of public funds and resources.

Since its inception, the Canadian Comprehensive Auditing Foundation has issued four (4) studies:

1. Improving Accountability – Canadian Public Accounts Committees and Legislative Auditors (1981)
2. Value-for-Money Management – A survey of Program Evaluation in Canada (1983)
3. Comprehensive Auditing: Concepts, Components and Characteristics (1983)
4. The Role of Auditing in Canadian Municipal Administration (1983)

These studies are of great importance to the auditing profession in general and to my own Department in particular as I seek to achieve a broadened mandate under a new and separate audit Act.

The Department of the Auditor General of Newfoundland is a sustaining member of the Foundation. Last year I was appointed to serve a three year term as a member of the Board of Governors and I have found the first year to be both interesting and challenging. It provided me with the opportunity to meet with and exchange ideas with my own colleagues and other individuals who share a common interest in comprehensive auditing.

16. **Canadian Conference of Legislative Auditors.** The eleventh annual meeting of the Canadian Conference of Legislative Auditors was held in Toronto, Ontario, from July 11-13, 1983. Representatives of all legislative audit offices, provincial and federal attended. The meeting, which serves as a useful forum for the sharing of ideas and information, was attended by two members of this Department.

Matters discussed at the Conference included Advisory Panels – Is there a need?, EDP Auditing – Where are we? and an update of the Canadian Institute of Chartered Accountants' Public Sector Accounting and Auditing Committee.

The Chairmen of the Public Accounts Committees in Canada held their fifth annual meeting in Toronto at the same time as our conference so that the agenda of both groups could be arranged for a joint session. The subject of the joint session was "Outsider Viewpoints."

17. **Public Accounts Committee.** The Public Accounts Committee has been appointed under Standing Officer 84(a)(d) of the standing orders of the House of Assembly of

Newfoundland to enquire into the Public Accounts of the Province and the Report of the Auditor General on these accounts.

During the past year, to 15 October 1983, the Committee held meetings to consider the Public Accounts and the Report of the Auditor General for the financial year ended 31 March 1982. Further meetings are scheduled to be held in the Fall of 1983. I have attended the meetings to date to be of any possible service to the Committee. As well, I continue to provide a member of my staff to the Committee as its research officer.

I would like to note, at this time, that the Public Accounts Commitee has tabled, during 1983, its report related to the Public Accounts and the Reports of the Auditor General for the financial years ended 31 March 1980 and 31 March 1981.

18. **Students-in-accounts.** I am pleased to report that during the past year three of my staff qualified as Certified General Accountants, and one of my staff qualified as a Registered Industrial Accountant. The results of the Chartered Accountants' final examinations have not yet been released for 1983, however, I expect some of my staff to qualify as Chartered Accountants in December of this year when results are released. I congratulate the above four graduates and wish continued success to those of my staff now studying towards a professional accounting designation.

19. **Corner Brook Office.** I am pleased to report that my Corner Brook Office continues to operate in an efficient and effective manner. The office is staffed by an Audit Manager, who is a Chartered Accountant, three audit staff and a Clerk-Typist. It has been assigned responsibility for the performance of my audits in the west coast area of the Province and in Labrador.

20. **Auditor General's Advisory Council.** Many complex matters must be considered in the course of the audit of the accounts of the Province. I am assisted in this regard by a small group of senior members of the accounting profession who serve on the Auditor General's Advisory Council:

Ted Hunter, F.C.A.

Bernard Hogan, C.A.

Wayne Trask, C.A.

I appreciate the contribution made by this Council to the work of my Department.

COMMENTS ON ASSETS AND LIABILITIES

Consolidated Fund Services

21. **Discontinuance of practice of making loans to Province from the Consolidated Sinking Fund.** In paragraph 19 of my Report for 1980-81, I expressed two concerns relative to certain transactions of the Consolidated Sinking Fund, namely (i) the making of loans directly to the Province from Sinking Fund monies, and (ii) the possible conflict of interest position of Sinking Fund Trustees who are also senior employees of the provincial government.

With reference to my first concern, I note that in February 1983, Minute of Council 133-'83 ordered among other things, that "the practice of borrowing funds for the Province by way of private placement from the Newfoundland Consolidated Sinking Funds be discontinued."

With reference to my second concern, I note that in its Report for the financial year ended 31 March 1981, the Public Accounts Committee recommended (Recommendation No. 2) that there be appointed as Trusteees of the Sinking Fund, persons who are not responsible for the day to day financial management of the Province. This recommendation has not been implemented.

Department of Finance

22. **Provision for loss on investments.** In paragraph 22 of both my 1980-81 and 1981-82 Reports, I noted that no provision had been made for potential losses resulting from investments in certain corporations. One example noted was Marystown Shipyard Limited, a Crown Corporation, in which the Province owned directly all of the common shares and approximately 69 per cent of the preferred shares.

I note from the audited financial statements of Marystown Shipyard Limited, as at 26 March 1983, that the Shareholders' Equity was reported to be $2,298,000. Of this amount the Province owns 69 per cent, $1,585,620, directly, and 31 per cent through Newfoundland Industrial Development Corporation. However, the carrying value of the Province's investment, as reported in the Schedule of Investments in the Public Accounts, is $16,187,881. This is $14,602,261 more than its direct share of the Shareholders' Equity in Marystown Shipyard Limited. It is apparent, therefore, that the value of the Province's investment in this company was substantiallly less than the value of the shares reported in the Schedule of Investments as at 31 March 1983. However, no provision for loss on investments has been recorded in the Public Accounts of the Province as at 31 March 1983.

In my opinion, a provision for loss on investments should have been recorded in the Public Accounts for any potential losses to the Province arising from its investments.

I note that this matter was considered by the Public Accounts Committee during its meetings held in November 1983. I look forward to the report of the Committee to the House of Assembly on this matter.

23. **Reconciliation of Newfoundland Exchequer Account balance in Exchequer Ledger with balance in General Ledger.** The Newfoundland Exchequer Account is the bank account into which all revenues of the Province are deposited and from which periodic withdrawals are made to cover expenditures of the Province. To record these deposits and withdrawals, the Department of Finance maintains a subsidiary ledger, known as the Exchequer Ledger, which contains several bank accounts, including one for the Newfoundland Exchequer Account. A bank account titled Newfoundland Exchequer Account is maintained in the General Ledger of the Province. Once each year, the Department of Finance prepares a statement to show that the balance reported in the Newfoundland Exchequer Account in the subsidiary ledger reconciles to the balance shown in the Newfoundland Exchequer Account in the General Ledger.

With regard to the preparation of this reconciliation statement, I have to report that some delay has been experienced in recent years in preparing this statement. For example the reconciliation as at 31 March 1982 was not prepared until February 1983, while the reconciliation as at 31 March 1983, had not been prepared as of 26 October 1983, but it was received by my Department on 3 November 1983.

The latest reconciliation as at 31 March 1982, a copy of which was recieved by me in February 1983, showed an amount of $1,213,174 described as "Payroll cheques issued in prior years for which no expenditure recorded in vote ledger."

In March 1983, I wrote the Comptroller General of Finance and expressed my concern that this large amount of public money, which was disbursed during the financial year 1979-80, had not been accounted for as expenditure up to the close of 1981-82 financial year. I also requested him to provide me with an explanation concerning this matter. In his reply, he informed me, among other things, that "breakdown of the balancing procedures between the disbursement ledger in the Central Accounts Section and the bank account ledger in the Exchequer Section allowed cheques totalling $1,213,174 to be issued but not recorded as expenditure. The matter was first discovered in the early summer of 1982 during the efforts of the staff of this department to explain the voucher payable balance of $6,112,292 which existed in the Exchequer Ledger account at 31 March 1981."

I have to express the following concerns about this matter. These are:

(i) There has been a problem with the balancing procedures from some time. This resulted in an error in May 1979. I do not believe that the Department of Finance has taken adequate measures to resolve this problem with the balancing procedures.

(ii) Department of Finance officials discovered in the early summer of 1982 that cheques totalling $1,213,174, issued in May 1979, had not been reported as expenditure of the Province. This was several months prior to the completion of the 1981-82 Public Accounts, yet no action was taken by them to have the expenditure reported in the Public Accounts for the year ended 31 March 1982. An adjustment has been made in the 1982-83 Public Accounts to record this expenditure. A note to Schedule A, Change in Excess of Liabilities over Assets, refers.

In relation to these concerns, I am of the opinion that the Department of Finance should have implemented measures to deal with the breakdown in the balancing procedures between the disbursement ledger in the Central Accounts Section and the bank account ledger in the Exchequer Section. Furthermore, the unreported expenditure of $1,213,174, which became known to Department of Finance officials in the early summer of 1982, should have been reported in the Public Accounts of the Province for the year ended 31 March 1982.

24. **Unrecorded payroll liabilities.** My audit of the general service payroll for the year ended 31 March 1983 has disclosed that the Province does not record or note in the Public Accounts its liability to employees for Severance Pay, Annual Leave and Regular Pay.

(i) Severance Pay — It is Government policy that an employee who has ten (10) or more years of continuous service is entitled to be paid on resignation, retirement, termination by reason of disability, expiry of recall rights, or in the event of death to the employee's estate, severance pay equal to the amount obtained by multiplying the number of completed years of continuous employment by the employee's weekly salary to a maximum of twenty (20) weeks pay and not to exceed $10,000. The records of the Department of Finance, Payroll Division, indicate that for the past two (2) calendar years, 1981 and 1982, amounts of $819,589 and $867,879, respectively, were paid in severance pay.

(ii) Annual Leave — It is Government policy that an employee can carry forward to another fiscal year any proportion of annual leave not taken by the employee in previous years until the employee has accumulated a maximum of twenty (20) or twenty-five (25) days annual leave depending on the employee's annual leave entitlement. This accumulation is in addition to the employee's current annual leave entitlement.

(iii) Regular Pay — The general service payroll for the two week period ended 5 April 1983 was $7,854,780. Of this amount 70% or $5,498,346 was for services provided in the 1982-83 fiscal year.

The Department of Finance and the various departments do not calculate or estimate these liabilities on an annual basis and include them in the Public Accounts for the year. In my opinion, they should do so.

25. **Provincial pension plans.** In paragraph 23 of my 1981-82 Report, I brought to the attention of the House of Assembly the need for a complete study of the four pension plans administered by the Province, with particular attention given to (i) the accrued unfunded liability for each pension plan and (ii) the relationship between the costs of current service benefits being accrued by employees of each plan and the contributions required to adequately fund these benefits.

I am pleased to report that the Department of Finance is now in the process of engaging consulting actuaries to provide actuarial advice on the various government pension programs and to perform a complete actuarial review and cash flow analysis on all such pension programs.

Department of Development

26. **Failure to effect a proper agreement results in loss of revenue to Province.** Under authority of a Minute of Council, dated 9 January 1979, the Department of Development was authorized to sell an estimated 58,000 cords of wood to a timber company for the sum of $500,000. An agreement, dated 5 March 1979, between the Province and the timber company, in part stated:

"The Company shall pay to Government

(a) 50% of the price received by the Company for sale of that part of the wood comprising pulpwood immediately upon receipt of such price, and

(b) 33 1/3% of the amounts received by the Company from time to time for sale of lumber immediately upon receipt of the same by the Company.

until such time as the purchase price has been paid in full."

The agreement also provided that, "in the event of default by the Company...the total purchase price shall become immediately due and payable."

My audit disclosed that:

(i) The Department did not include the amount of $500,000 in its accounts receivable for the 1978-79 fiscal year nor any year thereafter.

(ii) Contrary to the terms of the agreement, the Province did not receive its share (50%) of a sale amounting to $180,000 made by the company.

(iii) The company experienced financial difficulties and ceased operations in late 1980. Its inventory of wood was claimed by the bank as it had been pledged as security for the company's line of credit.

In my opinion, the Department of Development failed to safeguard the Province's interests by entering into an agreement of sale that did not provide the Department with any security in the event of default by the company. Since the company has defaulted on the agreement and is unable to pay the total purchase price, the Province has, in effect, lost an amount equal to the value of the timber over which it should have retained security.

Also, after the sales agreement had been signed, the Department should have recorded the $500,000 as an account receivable.

Department of Education

27. **Province's liability of $98,129,519, for debt of the Denominational Education Committees, not properly disclosed in the Public Accounts.** Under authority of a Minute of Council dated 19 June 1980, the Province agreed with two banks that certain amounts borrowed from these banks by the Denominational Education Committees would be repaid by the Province through the Committees, within five years, or refinanced under mutually acceptable terms. The amount outstanding on these loans at 31 March 1983 was $89,260,175.

Previously, in a letter dated 31 January 1980, the Province had informed one of these banks that the Province would provide funds to repay certain loans from that bank to the Denominational Education Committees within five years of drawdown. The amount outstanding on these loans at 31 March 1983 was $8,869,344.

The Province's liability with respect to the above-mentioned loans, totalling $98,129,519, as at 31 March 1983, is disclosed in the Public Accounts in the Schedule of Contingent Liabilities as Guaranteed Bank Loans, Corporate and Others, Denominational Education Committees.

The Department of Finance decided that this was the appropriate disclosure, notwithstanding that the Department of Justice advised the Department of Finance, in a memorandum dated 25 November 1982, to the effect that Government has a direct liability relative to the amount of $89,260,175, referred to above.

A subsequent Minute of Council, dated 17 January 1983, authorized the Minister of Finance to issue guarantees with respect to the bank loans for the Denominational Education Committees (to replace the outstanding Letters of Assurance). However, as of 16 August 1983, these guarantees have not been issued.

In my opinion, the total amount of $98,129,519 is a direct liability of the Province and should be included in the Schedule of Current and Long-Term Liabilities of the Province as at 31 March 1983.

This is the third consecutive year that this item has been included in my Report to the House of Assembly. As a result of my comments in my Report for the financial year ended 31 March 1981, the Public Accounts Committee undertook a review of this matter. The findings of the Committee were included in the Report of the Public Accounts Committee of the House of Assembly for the Financial Year Ended 31 March 1981. The Recommendation of the Committee stated:

> "The Committee recommends that the Government state as a matter of policy that it accepts responsibility for the debt and that it be shown in the Public Accounts as a direct debt of the Province as this would more realistically reflect the nature of the obligation."

COMMENTS ON CURRENT ACCOUNT REVENUE

28. **General comments.** The Summary of Revenue, Expenditure and Related Revenue by Department, Statement No. 4 of the Public Accounts, shows total current account revenue at $1,490,719,000. Details concerning the amounts which are classified as current account revenue appear in Statement No. 6 of the Public Accounts and the notes thereto.

In summary, the total comprises:

Payments received from the Government of Canada		
Subhead 490	Government of Canada	$700,296,000
Subhead 491.15	Reciprocal tax agreement	7,722,000
		708,018,000
Provincial income taxes collected and remitted by the Government of Canada		
Subhead 491.09	Personal income tax	254,344,000
Subhead 491.12	Corporate income tax	34,999,000
		289,343,000
Revenue received through the Newfoundland Liquor Corporation and the Newfoundland Liquor Licensing Board		61,385,000
Retail Sales Tax		267,240,000
Gasoline Tax		59,116,000
Mining Tax and Royalties		21,290,000
Tobacco Tax		36,519,000
Revenue from other taxes, privileges, licences, permits etc., collected by government departments, as shown in Statement No. 6		47,808,000
		$1,490,719,000

29. **Audit of Provincial Income Taxes.** As I have previously reported to the House of Assembly, both personal and corporate income taxes, imposed by the Province, are,

by agreement, collected by the Government of Canada on behalf of the Province. However, due to the provisions of the collection agreement, the Auditor General of the Province is unable, himself, to perform the audit work required to express an opinion on the provincial tax revenue from these sources.

In recent years, I (and other provincial legislative auditors in a similar situation) have relied on assurances from the Auditor General of Canada, based on audit work performed under his direction, relating to the assessing, proper allocation and accounting for provincial personal and corporate income tax revenues.

With respect to provincial revenue from these sources for the financial year ended 31 March 1983, I report that the Auditor General of Canada has addressed my specific concerns and, based on the results of his audit of the accounts of Canada, there are no indications that the personal and corporate income taxes assessed by the Government of Canada on behalf of the Province of Newfoundland were not properly allocated and transferred in compliance with the federal-provincial tax collection agreement.

Department of Finance

30. **Audit of the Retail Sales Tax System.** In February 1983, I completed a detailed review and evaluation of the system in effect over the collection and recording of Retail Sales Tax Revenue by the Department of Finance. As a result of this audit, I issued a detailed report to the Comptroller General of Finance. In this Report, I identified the control weaknesses in the system and outlined my recommendations for improvements relating to the following areas:

(i) Registration of vendors

(ii) Bonding of vendors

(iii) Processing of tax returns

(iv) Collection of tax on motor vehicle sales

(v) Penalties and interest

(vi) Collection activities

(vii) Selection of vendors for audit, and,

(viii) Computer reports

Implementation of these recommendations will, in my opinion, improve the system of control over the collection and recording of Retail Sales Tax revenue.

In his response, dated 14 September 1983, the Comptroller General of Finance expressed general agreement with my recommendations and indicated that several have been implemented. Other recommendations are presently under review and will be implemented, where practical.

31. **Conflict between The Financial Administration Act, 1973 and the Retail Sales Tax Act, 1978.** During my audit of Retail Sales Tax an apparent conflict between The Financial Administration Act, 1973, and The Retail Sales Tax Act, 1978 came to my attention.

Section 61 of The Financial Administration Act, 1973, states that, "The Auditor General shall satisfy himself that all public money is being fully accounted for and shall examine at his discretion the accounts of all persons charged with the collection of public money."

Subsection 28(1) of The Retail Sales Tax Act, 1978, states that, "Subject to this section, returns made under this Act shall not be made available to any persons except persons authorized by the Minister to receive them." Subsections 28(2) through 28(4) describe the persons who may be authorized, as above, by the Minister. I note that the Auditor General is not specifically named as being one of these persons.

It is the opinion of the Department of Finance that in order to remian in compliance with Section 28 of The Retail Sales Tax Act, the Auditor General's access to the aforementioned information must be restricted.

In an opinion, dated 1 November 1982, a solicitor of the Department of Justice stated that, "he (the Auditor General) is not entitled to any access (to returns) due to subsections (1) and (2) of section 28 of The Retail Sales Tax Act."

During the year, I requested and received an independent legal opinion which concluded that, "The Financial Administration Act, 1973, gives the Auditor General the right to unrestricted examination of files and accounts whether they be on paper or electronically stored."

I am presently pursuing this matter with officials of the Department of Finance. However, as Auditor General, I must strongly insist that I have unrestricted access to The Retail Sales Tax files if I am to carry out my function under Section 61 of The Financial Administration Act, 1973.

32. **Uncollected Mining and Mineral Rights Tax.** In 1975 the Legislature passed The Mining and Mineral Rights Tax Act, 1975, which replaced The Mining Tax Act, Chapter 239 of The Revised Statutes of Newfoundland, 1970. The 1975 Act imposed taxes on income from mining operations within the Province and, in addition, on income obtained or derived from persons holding "rights to mine." During 1982-83, tax revenue collected under this legislation and other special legislation related to mining operations totalled $21,290,000.

As a result of my 1982-83 audit of this revenue, I direct attention to the following matter:

Tax of $6,393,886 not paid. At 31 March 1983, tax recorded by the Department of Finance as owing from several mining concerns totalled $1[illegible]76,166. Of this amount, $5,571,385 was owing from one company, including $939,331 which it had withheld from its payments to another company for mineral rights. At date of audit (October 1983) the amount still owed by that company had been reduced to $6,393,886. Details concerning the composition of this amount are as follows:

(i)	Amounts witheld by the company from payments to another company for Mineral Rights Tax for the three years, 1976 to 1978. The amounts withheld were not remitted to the Province, although the mineral rights section of the legislation requires such remittance.	$439,331
(ii)	Amounts due for non-payment of royalties for the years 1979, 1980 and 1981, inclusive, as a result of the price escalation of ore. In September 1982, the Department of Justice commenced a court action for this amount. At the date of my 1982-83 audit (October 1983), this court action had not gone to trial.	4,782,166
(iii)	Royalties due for the 1982 year as a result of the price escalation of ore.	1,272,100
		6,493,597
	Less:	
(iv)	Portion of refund claims applied to royalties owed for the year 1979	99,711
		$6,393,886

33. **Refunds of tax.** In accordance with Section 67(4)(g) of The Financial Administration Act, 1973, I report that refunds of tax during 1982-83 were made as follows:

Retail Sales Tax	$2,311,000
Mining Tax and Royalties	402,000
Gasoline Tax	135,000
Insurance Companies Tax	5,000
Tobacco Tax	4,000
Insurance Premiums Tax	2,000
	$2,859,000

COMMENTS ON EXPENDITURE AND RELATED REVENUE

Department of Finance

34. **Expenditure without legislative authority.** Section 29 of The Financial Administration Act, 1973, reads:

> "The Comptroller General of Finance shall ensure that no payment of any public money is made
>
> (a) for which there is no legislative appropriation;
>
> (b) for which no other appropriation has been provided pursuant to this Act;
>
> (c) which is in excess of such appropriations; or
>
> (d) which is in excess of such sums as may have been deposited with the Government in trust for any person,
>
> and he shall report to the Board (Treasury Board) any case which comes to his notice in which liability has been incurred by any Minister, Deputy Minister or other officer or person which contravenes the provisions of this Act and the Board may take such action in this matter as it deems necessary."

On 30 March 1982 the Comptroller General of Finance advised the Minister of Finance and President of Treasury Board that he had received a copy of the Lieutenant-Governor's Warrant, dated 30 March 1982, in the amount of $290,672,300. He informed the Minister and President that

> "In accordance with the requirements of The Financial Administration Act, 1973, I am writing to inform you that I must decline to issue money out of the Consolidated Revenue Fund, pursuant to the above-noted Warrant, on the ground that there is no legislative appropriation therefor."

Under Section 32 of The Financial Administration Act, 1973, the Treasury Board overruled the refusal of the Comptroller General of Finance to make payments because of lack of legislative authority. The Board ordered payments to be made in accordance with the amounts authorized by the Special Warrant, and as allocated in the Chart of Accounts on file with the Secretary of Treasury Board.

I report this matter to the House of Assembly for the purpose of recording that I concur with the position taken by the Comptroller General of Finance. In my opinion, the expenditure of $290,672,300 covered by the Special Warrant, for the period 1 April 1982 to 7 May 1982, both dates inclusive, was made without legislative authority as required under Section 22 of The Financial Administration Act, 1973. That Section requires that (with certain exceptions for statutory and other payments referred to in the Section) "No issue of Public Funds shall be made out of the Consolidated Revenue Fund except under authority of the Legislature."

I note that the legislative authority was subsequently given for the expenditure of $290,672,300 by enactment of The Interim Supply Act, 1982, on 14 May 1982.

35. **Internal Audit.** The Internal Audit Division of the Office of the Comptroller General of Finance was established in 1976. Since its inception the Division has consisted of a maximum of eight approved positions. One of its stated objectives is to provide the Comptroller General of Finance with information on the functioning of financial control within government. A second objective is to provide all levels of management with an objective and constructive evaluation of their financial and management information systems. Besides attempting to fulfill these objectives the Internal Audit Division responds to requests for assistance and/or special projects from the Comptroller General of Finance and government departments.

The Internal Audit Division reports to the Comptroller General of Finance. Since many of the systems and procedures audited by the Division are the responsibility of the Comptroller General of Finance there is potential for loss of independence in the activities of the internal audit group.

Due to both the large number of requests for assistance and special projects and the very limited staff resources, in my opinion, the Division has never been in a position to formulate a plan to achieve the above noted two objectives.

Despite these limitations, the Internal Audit Division has, in my opinion, produced many worthwhile and meaningful reports in response to the many requests for assistance.

Government operations are becoming larger, more organizationally complex, and often more decentralized. As a result personnel at the Assistant Deputy Minister level and above (senior executives) cannot exercise the same degree of direct control over government activities that they once could. The internal audit function can provide significant assistance in enabling senior executives to fulfill their responsibilities. Management needs assurance that government operations are being reviewed regularly and that areas are being identified where policies and procedures are not being compiled with or could be improved. The Internal Audit Division can provide this assurance through examination and evaluation of the adequacy and effectiveness of government's system of internal control. The objectives of such an examination are to ensure the reliability and integrity of information, compliance with policies, plans, procedures, laws and regulations, the safeguarding of assets, the economical and efficient use of resources and the accomplishment of established objectives and goals for operations or programs. To accomplish this important role, the internal audit group needs to be particularly strong. It needs a clear mandate from senior management. It must approach its work in an organized, systematic way. It should not function only on a reactive basis as it has in the past. It must develop its already competent personnel by providing them with the capability of using more modern audit techniques, such as statistical sampling and computer auditing. In order to assist in the development of a strong internal audit group, capable of effectively carrying out this increasingly more important role, I make the following recommendations:

- Senior management should provide the Internal Audit Division with a clear written mandate and communicate the importance of the internal audit role to all appropriate personnel.
- Once the mandate has been developed, sufficient competent professional staff with diverse skills and experience should be provided to complement the present staff resources.
- The internal audit group should then approach its responsibilities on a planned, systematic and organized basis through the development of a long range master plan to ensure that all appropriate projects are carried out on a timely and efficient basis. As well, more use should be made of techniques such as statistical sampling to improve audit efficiency. Internal audit also needs to devote more attention to the audit of computerized systems to ensure that adequate controls are in place.
- In order to avoid any potential loss of independence by the internal audit group and to ensure that the needs of user departments are addressed, consideration should be given to the formation of an audit committee of senior executives from various user departments, including the Comptroller General of Finance. The Internal Audit Division, reporting to such a committee, would be able to select and carry out its projects on a clearly independent basis and ensure that consideration is given to projects requested by all users of internal audit services.

36. **Financial Management Information System.** In 1979, the Department of Finance initiated a project to develop a computerized accounting and financial management information system that would provide government and departmental managers with timely and accurate financial information. This project was jointly undertaken by the Department of Finance and Treasury Board in conjunction with Newfoundland and Labrador Computer Services Limited.

The requirements of the new system were defined in July 1981, after which a comprehensive search of the marketplace was done to identify and evaluate government oriented financial computer systems. In July 1982, the Lieutenant-Governor in Council authorized the purchase of a computer software package which was required as the nucleus of the financial management information system.

Implementation of the system began 1 April 1983. I intend to review the system during the 1983-84 fiscal year and report my findings in my next annual report.

37. **Audit of the General Service Payroll System.** During the year, I performed an audit of the General Service Payroll System. My audit consisted of a review and eval-

uation of the system of control in effect in a number of government departments and a review and evaluation of the system of control at the Payroll Division of the Department of Finance. In order to assess the impact of any control weaknesses identified as a result of my review of the system, I also performed certain substantive audit procedures which utilized computer assisted audit techniques.

Direct responsibility for payroll expenditures rests with the specific government department originating the transactions. The responsibility for reviewing and processing the information lies with the Payroll Division of the Department of Finance which provides the service of a processing control group.

My audit has disclosed that there are weaknesses in the General Service Payroll System from which, in my opinion, the following exposures could result:

(i) unauthorized, fraudulent or incorrect payroll transactions could be initiated;

(ii) terminated employees could continue to be paid; and

(iii) payroll transactions could be inaccurately accounted for resulting in a misstatement of government accounts.

In my opinion, in order to reduce the risk due to the above exposures, it is important that the system of control over the General Service Payroll expenditures be strengthened. Certain improvements could be made at the Department of Finance level and major improvements are required at the individual user department level. I recommend that:

(i) the functions of initiating payroll transactions, receiving and distributing the output from the system (i.e. payroll cheques and journals, etc.) be segregated;

(ii) the output from the system (i.e. payroll cheques and journals, etc.) should be reconciled and balanced to input. The output from the system should be reconciled to the previous payroll even where no known changes have originated in the system;

(iii) proper attendance records should be maintained and approved by designated senior officials; and

(iv) the records supporting the payroll expenditures should be properly authorized by the department being charged with the expenditures.

In connection with recommendation (i) above, my audit disclosed that payroll staff in the Payroll Division, Department of Finance, are responsible for receiving and initiating input into the system as well as receiving all output from the system for distribution to the various departments. My audit also disclosed that in the user departments, the employee responsible for initiating payroll input and therefore payroll expenditure is often the person responsible for receiving and distributing the output from the system (i.e.

cheques and payroll journals). In my opinion, these functions should be segregated in order to prevent or detect accidental or deliberate errors.

In connection with recommendations (ii), (iii) and (iv) above, my audit disclosed a major area of concern over the authorization of payroll expenditures at the individual user department level. To ensure that expenditures charged to each department are properly authorized, in my opinion, the payroll journals received from the Department of Finance, Payroll Division, should be critically reviewed in the receiving department and authorized by a senior officer who is independent of the payroll function. This officer should have direct knowledge that the expenditures made are accurate and are to valid employees of the department. These procedures may, in some cases, have to be performed by a number of individuals particularly where there are divisions outside of the department's head office. However, in my opinion, it is imperative that such evidence be obtained to support the payroll expenditures of the individual departments.

Department of Forest Resources and Lands

38. **Lack of signed agreement for sharing cost of spruce budworm spray program.** A Minute of Council, dated 25 February 1982, dealing with the 1982 spray program for forest protection against spruce budworm, ordered, among other things that, "two thirds of the total cost of the spray program to be paid by the pulp and paper companies in the Province."

The Department billed the companies in December 1982 for their shares of the cost of the spray program and the companies paid the bills.

I am concerned however that the Department of Forest Resources and Lands could not provide me with a signed copy of an agreement between the Government and the companies regarding the cost sharing.

In my opinion, the Department failed to properly safeguard the interests of the Province by not having a signed agreement available.

Department of Transportation

39. **Public tenders not called for certain roads construction projects.** The Public Tender Act, 1974, requires that, with certain exceptions, public tenders shall be called for the execution of public works. One of these exceptions applies where the work is an extension of an existing highway contract at the same unit price as that provided in the highway contract of which it constitutes an extension.

Since The Public Tender Act became law in 1974, the Auditor General has reported instances of highway construction contracts being extended for work which, in his opinion, represented new projects and as such should have been individually tendered.

As a result of comments contained in one such Report to the House of Assembly, the

Public Accounts Committee undertook an in-depth review of certain matters related to public tendering in the Department of Transportation. The findings of the Committee were reported to the House in its Report, tabled on 14 April 1980, on matters related to the 1977-78 financial year.

In the area of public tendering, Recommendation 13 of the Committee stated that,

> "While the core meaning of the words "extension" and "unit price" (as used in subsection (c) of Section 3 of the Public Tender Act) are clear on any reasonable reading of the Act, a statement of this meaning should be incorporated into the Act. As well, detailed rules for the application of this meaning should be provided in regulations made pursuant to Section 6 of the Act (which provides for the making of such regulations by Cabinet as are "necessary or expedient to ensure the carrying out of the provisions of this Act according to their true intent and meaning and to provide for deficiencies therein")."

Even though this Recommendation of the Public Accounts Committee was made some three and one-half years ago, the suggested and necessary legislative improvements have not been enacted at date of my 1982-83 audit (August 1983).

However, in March 1983, a Minute of Council ordered that the recommendation of the President of Treasury Board with respect to the implementation of the recommendations of the Mahoney Commission of Enquiry be approved. It ordered further that the Organization and Management Division, Treasury Board Secretariat, in consultation with the Office of Legislative Counsel, co-ordinate the implementation of the approved recommendations through legislative and administrative means.

One recommendation proposes that the Public Tender Act be amended to remove the Section that gives the Minister authority to extend a highway contract without inviting tenders provided that it is at the same unit prices provided in the highway contract of which it constitutes an extension. The Act will be further amended to permit extensions within the scope of the original contract provided that the extensions do not exceed certain statutory minimum amounts depending upon the value of the contract. It is further recommended in the Minute of Council that should extensions make it necessary to exceed the proposed statutory threshold levels that prior approval of Cabinet be sought, in the case of a Government Department.

It has always been my view that additional work should not automatically be awarded to a particular contractor as an extension to an existing contract simply because he is in the area and available to do the work at short notice. The Act intends that individual projects in excess of $15,000 be tendered publicly. If this is not done, regardless of other considerations, the intent of the Act, in my opinion, has not been fulfilled.

Conclusion. I look forward to enactment of any legislative changes to The Public Tender Act, 1974, which will enunciate the specific conditions under which an existing highways contract can be extended and at the same time will ensure that the Act is not weakened. As well, I anticipate that legislative amendments that permit extension "within the scope of the original contract" will clearly define the meaning of such language in order to avoid individual interpretation. The uncertain situation with the application of the legislation in this area, that has resulted in a number of comments in the Auditor General's Report since the legislation was proclaimed in 1974, will not be rectified until this is done.

It is essential that the language of the Act clearly state under what specific circumstances public tenders need not be called for public works projects. I quote from a letter written by a former Deputy Minister of Justice to the Chairman of The Public Accounts Committee in September 1978 in which he said, "It is my recommendation that the Act (The Public Tender Act, 1974) should be thoroughly overhauled and drafted in such a way that the reader can clearly conclude what it aims to do."

I look forward to this objective being accomplished.

40. **Control over the use of government air services.** The serious lack of control by the Department of Transportation over the payment of public funds for air services has been referred to in several previous Reports of the Auditor General. It was concluded, in those Reports, that action should be taken, without delay, to develop, document and implement systems and procedures to establish strict and satisfactory control over the use of government air services. This matter was last referred to in my 1981-82 Report.

At that time I also disclosed that despite the recommendations of the Public Accounts Committee and the Auditor General the Department of Transporation initiated a Minute of Council which "Ordered that, in view of there being no regulatory requirement for recording such specific information, no records be maintained as to the purpose of flights or the passengers travelling on Government owned or Government contracted aircraft. Such policy to be effective henceforth." I concluded in my 1981-82 Report that, in my opinion, the recording of such information is critical to an adequate control system for government air operations.

My 1982-83 review of air services expenditure totalling $7,907,814 disclosed that some deficiencies still existed during that year in the areas identified in previous Reports.

During the year there continued to be difficulties with:

(i) incomplete documents authorizing the use of air services;

(ii) incomplete flight reports;

(iii) instances where passengers on aircraft were not identified on flight reports;

(iv) purposes of trips not being available;

(v) necessary authorizing signatures not on some flight reports.

However, subsequent to year end, the Department initiated action to prepare a manual of detailed procedures and instructions for the Air Services Division. I have been informed that this manual will include recommendations made by the Auditor General. I look forward to seeing these improved procedures fully documented and operational in order that a greater degree of accounting and administrative control over the acquisition of government air services can be achieved.

Additionally, in February 1983, a Minute of Council was issued which rescinded the Minute of Council discussed in my previous Report (and referred to above). The February 1983 Minute of Council ordered that, "with respect to Government owned or Government contracted aircraft, the maintenance of records as to the purpose of flights and the names of passengers travelling on each flight is hereby approved in order to provide for an adequate control system as recommended by the Auditor General."

Conclusion. I am satisfied that serious efforts are now underway to fully correct the control deficiencies that have existed in the Air Services Division for the past several years. Government has acccepted the Auditor General's recommendations (as ordered in the February 1983 Minute of Council) and I feel that the policy stated will assist greatly in these efforts.

41. **Significant loss of public funds on ferry vessel acquisition.** My audit of Subdivision 1111.09, Transportation Support, Ferry Vessel Acquisition disclosed that in March 1983 the Department made payments totalling $778,000 to acquire ownership of a particular ferry vessel from the owner/operator. The payments represented liquidation of bank indebtedness originally incurred by the owner to acquire the vessel, totalling $668,000, and an additional payment, directly to the owner, amounting to $110,000. These payments climaxed a series of events which began in April 1979 when the Province, based on representations made by the operator of a particular government-subsidized ferry service, authorized the purchase by the operator of a new vessel as a replacement for one that was considered to have become inadequate for the service. As well, Government agreed to assure the operator's bankers, that it would make subsidy payments to the operator (assigned to the bank) sufficient to meet principal and interest on $650,000 in bank loans to enable the operator to acquire financing for the vessel purchase. The total bank loan acquired was $820,000 but the Province's original stated arrangement with the owner was to have seen $170,000 of the total loan settled from the proceeds of the sale of the operator's old vessel.

My review of documents on this transaction disclosed the following details:

(i) The Minute of Council authorizing the operator to proceed with the replacement purchase was issued despite Treasury Board's recommendation to Executive Council in April 1979 which recommended, among other things, that (a) the proposal of the former Minister relating to the replacement of the ferry, not be approved, and (b) the Department of Transportation review all intraprovincial ferry services to determine how many other ferry vessel operators are justified in acquiring replacement ferries, so that Government can evaluate the need for larger and better ferries for all services on a timely basis in order that decisions made complement the Federal Agreement to build terminals that will be suitable for replacement ferries.

(ii) The replacement vessel, acquired by the operator under authority of this 1979 Minute of Council, operated on a limited basis for a six month period, January to June 1980 and has not operated in the ferry service since that time.

(iii) The Province, because of its agreements with the operator and his bankers, was in the position of having to subsidize two vessels for this service, one of which was not operating.

(iv) The "old" vessel was not sold in accordance with the terms of the original arrangement between the operator and Government, referred to in Minutes of Council. Therefore, the total bank loan liability remained at $820,000 rather than the $650,000 originally authorized.

(v) In January 1983 a Minute of Council was issued which ordered, among other things, that the Department of Transporation, "proceed to arrive at a settlement on the purchase of the vessel (by Government from the operator) at an amount up to $800,000" and, "enter into negotiations for the sale of the vessel, with the Department to report back to Executive Council for final approval of this sale." My review of departmental comments contained in certain documentation dealing with the purchase and disposal of the idle vessel disclosed that the Department had been reluctant to agree with the purchase price proposed by the operator. Additionally this documentation disclosed the following:

(a) Even though the Department of Justice had recommended that Government settle for $800,000, it was very difficult for the Department, in light of the circumstances and its market information and appraisals, to recommend to Executive Council that the owner of the vessel be effectively given $100,000.

(b) The Department felt that a reasonable arbitrator would have difficulty recommending a settlement in excess of the amount of the bank loan and that Government should go to arbitration.

(c) In discussing the vessels market value as estimated by appraisers it was stated that the appraisers felt that on the open market the ship could not be expected to sell for much more than $250,000.

(d) It was determined by the Department through further investigation that a minimum expenditure of $750,000 would be required to make the vessel operational. Therefore, given the age of the vessel and the uncertainty surrounding its physical condition the Department expressed a strong preference for disposing of the vessel as soon as possible after acquisition.

(vi) On 26 January 1983 a Departmental official wrote the owner's solicitors stating, "I am pleased to advise that Government is prepared to settle this matter by purchasing the...(Vessel) from your client for an amount equal to the outstanding bank loan at the time of settlement plus $100,000 in recognition of the increased value of the asset."

(vii) On 5 April 1983 Government issued two cheques to purchase the idle vessel. One cheque for $668,000 to liquidate the owner's outstanding bank loans and another cheque for $110,000 as a direct payment to the owner. This amount exceeded the figure quoted in the Department's letter of 26 January 1983 of $100,000 by $10,000.

(viii) In May 1983, another Minute of Council, "Ordered that the Department of Transportation, in conjunction with the Department of Development, be and it is hereby authorized to transfer title of the...(Vessel) to Marystown Shipyard Limited for the nominal sum of one dollar ($1.00)."

(ix) The idle ferry vessel was finally towed to Marystown in Septmeber 1983.

Conclusion. From the time it authorized the owner to proceed with the acquisition in April 1979 to the time that the vessel was purchased by the Province and finally towed to Marystown in September 1983, the Province spent at least $1,600,000 to subsidize, maintain and finally own this vessel. All of this was for a vessel that operated on a limited basis for six months in 1980 and from that time was completely idle.

It seems to me that Treasury Board, presumably on the advice of departmental officials, recognized the problem in the beginning and recommended to Government that the acquisition not proceed but instead a proper study and evaluation be undertaken. The recommendation of Treasury Board was not accepted.

Additionally, the Department's recommendation that the purchase price to be paid by the Province be settled by arbitration was not acted upon and the Province paid the owner the additional $110,000 that he had requested. It was stated that the payment was in recognition of the increased value of the asset, but the Department has on file an appraisal that indicates that, on the open market the ship could not be expected to sell for much more than $250,000. The vessel's original capitalized value was in excess of $820,000. I, therefore, fail to see the justification for an additional payment of $110,000 based on market value. As well, the owner retained and continued to operate the "old" vessel which was to have been sold under his original arrangement with the Province.

I have to be critical of a transaction that results in such a significant loss of public funds. I am convinced, having reviewed all the available documentation, that it could have and should have been avoided.

Department of Education

42. **Teachers' Payroll System.** In paragraph 37 of my 1981-82 Report, I disclosed that as of 31 March 1982 few of the deficiencies in the Teachers' Payroll System, which had been reported to the Department of Education in two management letters, dated 12 December 1980 and 14 September 1981, respectively, had been corrected. I note that Recommendation 17 in the Report of The Public Accounts Committee of the House of Assembly for the financial year ended 31 March 1981, stated that, "The Committee commends to the Department the detailed recommendations of the Auditor General's management letter as well as those of its own steering committee. It is recommended that action be taken without delay on all recommendations which have yet to be implemented."

I now report that audit work performed for the 1982-83 financial year consisted of substantive audit procedures on a sample of cheque transactions selected from the payrolls for the entire period under review, using statistical sampling techniques. Previously reported deficiencies were discussed and reviewed with officials of the Department of Education. Based on this audit work, in my opinion, as of 31 March 1983 major deficiencies still exist in the Teachers' Payroll System.

Therefore, once again, I urge the Department of Education (with assistance from Treasury Board, the Department of Finance and Newfoundland and Labrador Computer Services Limited) to take immediate action to correct the remaining deficiencies in the Teachers' Payroll System.

43. **Payment of $238,014,052 without the required regulations being made.** In paragraph 41 of my 1981-82 Report, I reported that there had been a resolution of the disagreement between the Department of Education and myself as to the proper authority for the payment of salaries to teachers and administrative personnel employed by school boards in the Province. The Department, on the basis of legal advise from the Department of Justice had agreed (in a memorandum dated 3 December 1982) with my contention that the scale of salaries for such personnel should be set forth in regulations, as required under Section 92 (1) of The Schools Act.

However, with respect to such salary payments for the year ended 31 March 1983, the scale of salaries was not set forth in regulations. In my opinion, the result is that expenditures totalling $238,014,052, were made in 1982-83 without proper authority, in that the regulations required by Section 92(1) of The Schools Act were not made. These expenditures were charged as follows: Subdivision 1303.01.01, Financial Assistance, Teaching Services, Salaries, $232,212,141; Subdivision 1303.01.02, Financial Assistance, Teaching Services, Employee Benefits, $5,801,911.

44. **Payment of public examination costs, totalling $484,083, without proper authority.** In my 1981-82 Report, paragraph 42, I commented on the payment of public examination costs without proper authority. I noted that the legislative authority to make regulations authorizing the payment of remuneration to examiners and other persons appointed to conduct public examinations comes from Section 5(a) of The Education (Public Examinations) Act. No regulations were made under this Act to provide the authority to make payments to individuals involved in the supervising, marking, etc., of public examinations.

Since there were no regulations under this Act to provide the authority to make such payments, in my opinion, the payments made during the 1982-83 financial year and charged to Subdivision 1304.02.05, Instruction and Curriculum Development, Examinations, Professional Services, amounting to $484,083, were made without proper authority.

I note that the Department of Education agreed with the opinion as stated in my previous Report (that payments for public examination costs were made without proper authority) and agreed to take corrective action. However, as of 17 September 1983, such action had not been taken.

45. **Payment of teachers' salaries in excess of amount authorized.** The Teachers' Payroll Division of the Department of Education is responsible, among other things for providing for the payment of salaries to teachers employed by the School Boards in the Province. Because of a change in the methods of calculating and paying the salaries of teachers, payments to teachers exceeded authorized amounts in the months of July and August, 1981 and 1982. Audit work on salaries paid to teachers in July and August 1982 revealed total excess payments of approximately $1,300,000. While adjustments may be necessary to this amount, in my opinion they would not significantly reduce it.

Prior to the previously mentioned change in methods, a portion of the salaries earned by teachers during the ten month period, September to June, was withheld from payment during this period. The amount withheld was subsequently paid during July and August. Due to the change, the amount paid to the teachers during July and August, in both 1981 and 1982, was in excess of the amount earned and withheld during the period September to June.

My audit disclosed that the change referred to was made on the basis of a memorandum, dated 26 June 1981, from the Director, Collective Bargaining Division, Treasury Board, to the Supervisor, Payroll and Grants, Department of Education. However, in my opinion the memorandum was not authority for the change in methods of calculating and paying the salaries of teachers.

In a letter to me dated 25 October 1982, the Deputy Minister of Education stated that, "the Department agrees that the authority on which we (the Department) acted may have been inadequate. However, we have been assured by members of the Bargaining Committee that we have acted, and are acting as was agreed and intended by all parties to the Agreement (Collective Agreement with Teachers)." In addition on 17 January 1983, a Minute of Council was issued which approved the action taken by the Department of

Education. However the explanation of the Department of Education and the Minute of Council still do not change my opinion that there was no authority for the action taken and the result was payments of teacher's salaries in excess of the amount authorized.

I note that this matter was reported in paragraph 43 of my Report to the House of Assembly for the financial year ended 31 March 1982. The Public Accounts Committee has considered it and I look forward to any conclusions or recommendations of the Committee regarding it.

46. **Payment of tuition fees and allowances, totalling $11,553,059, without proper authority.** In my two previous Reports, I commented on the payment of tuition fees and allowances without proper authority. I noted that the legislative authority to make regulations authorizing the payment of tuition fees and allowances comes from The University Fees and Allowances Act. The criteria for determining assistance under this Act were originally approved by the Lieutenant-Governor on 22 September 1966 and published in the Newfoundland Gazette of 27 September 1966. The regulations approved at that time were known as The University Student Aid Rules, 1966.

These regulations were not filed with the Legislative Counsel as required by Section 17 of The Statutes and Subordinate Legislation Act. Therefore, under that Act, the 1966 regulations ceased to have any effect after 31 December 1978.

Since the criteria under which the Student Aid Program was administered were not properly authorized, in my opinion, payments made under the program during the 1982-83 financial year and charged to Subdivisions 1316.03.09, Student Aid, Tuition, Allowances and Assistance, and 1316.04.09, Student Aid, Student Allowances, Allowances and Assistance, amounting to $11,553,059, were made without proper authority.

I note that the Department of Education has agreed with the opinions expressed in my two previous Reports and has indicated that corrective action is being taken.

As a result of comments in my Report for the financial year ended 31 March 1981, the Public Accounts Committee undertook a review of this matter during proceedings held on 30 September 1982. The findings of the Committee, included in the Report of the Public Accounts Committee of the House of Assembly for the Financial Year Ended 31 March 1981, stated that "The Committee is satisfied that remedial action is being taken on this matter."

I note, however, that as of 27 September 1983 regulations have yet to be made to provide for the payment of tuition fees and allowances.

Department of Social Services

47. **Lack of control over Short-Term Social Assistance and overpayments of Social Assistance.** In my 1981-82 Report, I disclosed the results of certain audit tests I performed on the Department of Social Services' system of financial management and

accounting control over;

(i) payments made to Short-Term Social Assistance recipients; and

(ii) the recording and collection of amounts due to the Province as a result of overpayments of social assistance.

I reported as follows:

(i) In Paragraph 44 of my 1981-82 Report I concluded that the system of financial management and accounting control over payments relating to Short-Term Social Assistance was not adequate to ensure the completeness, accuracy and proper authorization of recorded expenditures.

(ii) In Paragraph 45 of my 1981-82 Report, I expressed my opinion that the systems and procedures in effect in the Department of Social Services were not adequate to ensure proper administrative and accounting control over recording and collection of amounts due to the Province as a result of overpayments of social assistance.

I now report that for the financial year 1982-83, I again performed certain audit tests in an effort to determine whether there had been any significant improvement in these matters as reported in my 1981-82 Report.

In my opinion, based on these audit tests, the systems and procedures in effect in the Department of Social Services, as at 31 March 1983, were still not adequate to ensure:

(i) the completeness, accuracy and proper authorization of recorded Short-Term Social Assistance expenditure; and

(ii) the proper administrative and accounting control over recording and collection of amounts due to the Province as a result of overpayments of social assistance.

I have been informed by the Department of Social Services that, since 31 March 1983 they have implemented certain changes in the system of financial management and accounting control in order to correct the above-noted deficiencies. To date, I have not audited these changes and therefore I cannot comment on their effect.

I note that paragraphs 44 and 45 of my 1981-82 Report were considered by the Public Accounts Committee during its meetings held in October 1983. I look forward to the report of the Committee to the House of Assembly on these matters.

Department of Health

48. **Lack of financial control over payments to dentists.** I have examined the system of

financial control over payments made to dentists by the Department of Health under Subhead 1509, Dental Health Division, for the year ended 31 March 1983.

The objectives of my examination were

(i) to review and evaluate the financial controls within the system;

(ii) to conduct audit tests of the transactions and records of the Division in order to assess the impact of any identified control weaknesses on the reported expenditure; and

(iii) based on my audit examination, to form an opinion on the financial control over the system.

My audit tests of the transactions and records of the Dental Health Division disclosed that:

(i) There were no procedure manuals in existence outlining the steps to be followed and rules to be checked when assessing claims.

(ii) There was no check by the Division of claims submitted by dentists for individuals who qualified under the social assistance guidelines or as other eligible groups, i.e. children at a School for the Deaf, children resident in orphanages, etc. Reliance was placed on the dentists to ensure that the individual qualified under the program.

(iii) Claims examined by dental assessors showed no indication, other than a date stamp, that the form had been assessed and found to be correct.

(iv) Under the present manual system claims submitted by dentists are filed by dentist's name. As a result of this and the volume of documents it is difficult to compare a current claim to a patient's history. Therefore, it is possible for a patient to visit more than one dentist and have the same service performed by each dentist.

(v) Claims were paid for social assistance recipients for services which require prior approval of the Division, and such claims often did not indicate that prior approval was obtained.

(vi) In some cases payments for examinations were made in excess of the rates approved by Treasury Board for this service.

Based on the results of my audit tests and my review of the system of financial control, I now report that in my opinion:

(i) The administration and accounting system does not include sufficient controls to adequately prevent or detect errors in payments to dentists.

(ii) The present system is not adequate to ensure the validity and proper authorization of recorded expenditures.

(iii) Immediate action should be taken to modify and improve the present system.

Department of Culture, Recreation and Youth

49. **Undisclosed outstanding commitments under the Community Sports Facilities, Recreation Capital Grants Program.** In paragraph 28 of my 1980-81 Report and again in paragraph 49 of my 1981-82 Report, I commented on the Province's financial obligation relating to outstanding commitments for grants to various incorporated communities, rural areas and other groups, to assist with the construction of sports facilities, the purchase of equipment and for other items. These grants had been committed by the Department of Culture, Recreation and Youth prior to 31 March of each fiscal year but the Province's financial obligation relating to these commitments was not disclosed in the Public Accounts of the Province.

My audit for the 1982-83 fiscal year revealed that grants committed under the Community Sports Facilities, Recreation Capital Grants Program prior to 31 March 1983, to be paid out during the next five years amounted to $3,165,718. However, the Province's financial obligation relating to these outstanding commitments has not been disclosed in the Public Accounts of the Province.

In my opinion, these commitments should have been reported in the Public Accounts of the Province for the year ended 31 March 1983.

I note that this matter was considered by the Public Accounts Committee during its meeting held in October 1983. I look forward to the report of the Committee to the House of Assembly on this matter.

50. **Failure to comply with Recreation Capital Grants Program.** The Recreation Capital Grants Program is designed primarily to provide financial assistance to incorporated communities, rural areas and others to enable them to build or improve recreational facilities in the Province. Minute of Council 224-'75 of 14 March 1975 and its amendment Minute of Council 1166-'78 of 29 September 1978 ordered, among other things, that there shall be integrated decision making by the Department of Culture, Recreation and Youth and the Department of Municipal Affairs with respect to the awarding of major Capital Recreation Grants in excess of $150,000.

My audit disclosed that the Department of Culture, Recreation and Youth made a payment of $60,000 on 25 October 1982 to the Bay Arena Committee, Bay Roberts, as the first instalment on a $300,000 grant to be made to the Committee by the Department. However, the joint proposal, relating to the grant for the construction of a stadium at Bay Roberts, prepared for submission to Executive Council by the Minister of Culture, Recreation and Youth and the Minister of Municipal Affairs, was dated 17 June 1983. Also, the funding in the amount of $300,000, by the Department of Culture, Recreation and Youth for a stadium at Bay Roberts was not approved by Minute of Council until 6 July 1983.

In my opinion, the Department of Culture, Recreation and Youth did not comply with the requirement of Minutes of Council 224-'75 and 1166-'78 since payment of the first instalment of a Recreation Capital Grant was made prior to the submission of the joint proposal. In addition, the first instalment on the grant was paid prior to approval being given to pay the funding in the amount of $300,000 in five equal annual instalments of $60,000.

OTHER COMMENTS

51. **Newfoundland Liquor Corporation borrowed $2,000,000 without statutory authority.** My audit of the Newfoundland Liquor Corporation for the year ended 31 March 1983 disclosed that the Corporation borrowed $2,000,000, on 31 March 1983, by means of an unsecured bank demand loan. The Corporation had obtained legal advice that such borrowing was within its statutory authority.

Nevertheless, in my opinion, (and considering as well legal advice which I have obtained) as at 31 March 1983 the Corporation had no authority under the provisions of The Liquor Corporation Act, 1973, to obtain funds by borrowing. Therefore, the Corporation and its officials involved in negotiating the bank demand loan acted relative to that transaction without statutory authority.

I note that on 31 May 1983, The Liquor Corporation Act, 1973, was amended to give the Corporation the authority to borrow, subject to the prior approval of the Lieutenant-Governor in Council, and other related provisions of the amended legislation. Also, I note that the bank demand loan was subsequently repaid from the proceeds of a $2,000,000 debenture issued by the Corporation and due 30 June 1984 to 1993. This debenture was dated 30 June 1983 and guaranteed unconditionally as to principal and interest by the Province.

52. **Possible revenue verification procedure not being taken by the Newfoundland Liquor Corporation.** For the financial year ended 31 March 1983, the Newfoundland Liquor Corporation received revenue totalling $27,986,856 from three breweries which produce, distribute and sell beer in the Province.

Section 29(1) of The Liquor Corporation Act, 1973 states that, "Every brewer shall make to the Corporation (i.e. Newfoundland Liquor Corporation) every month an exact return showing the gross amount of sales made by such brewer." Based on the amount of sales, as indicated on these returns, the breweries remitted to the Corporation revenue amounting to $27,986,856 during the Corporation's 1983 financial year.

Section 30(1) of The Liquor Corporation Act, 1973 states that, "The Corporation may examine the books of any brewer making or required to make the returns referred to in Section 29 or may otherwise verify the accuracy of any such return."

In my opinion, in view of the significant sums of revenue which are received from the three breweries, the Corporation should verify the accuracy of the returns made by the breweries, as specifically provided for by Section 30(1) of The Newfoundland Liquor Corporation Act, 1973. This would enable the Corporation to verify that it has in fact received all the funds it was entitled to. I note that this recommendation was conveyed to the Corporation in my management letter dated 15 June 1983.

53. **Audit of the financial statements of the Registrar of the Supreme Court of Newfoundland.** My audit reports on the financial statements of the Registrar of the Supreme

Court of Newfoundland for the years ended 31 March 1980, 1981 and 1982 have stated that I was unable to express an opinion on the financial statements due in part to deficiencies in both the accounting and internal control systems.

The Registrar of the Supreme Court presently administers assets which have a recorded value in excess of $10,000,000. Therefore, in my opinion, it was imperative that strong measures be taken to improve the accounting system in order to ensure that control is exercised, not only over receipts and disbursements, but also over the recording, valuation and management of assets held. In a letter to the Registrar, dated 14 July 1982, I reported my recommendations for such improvement.

I note that during the past number of years, the Registrar and the Department of Justice, in consultation with my Department, the Department of Finance and Treasury Board Secretariat, has attempted to improve this situation. I understand that he has implemented a new accounting system with effect from 1 April 1983. To date, I have not reviewed or evaluated these changes.

54. **Shares of B.L.C. Building Corporation Limited not held in accordance with legislative requirement.** The audit of B.L.C. Building Corporation Limited for the year ended 31 March 1982 disclosed that the three issued and outstanding shares of the Corporation were not held in accordance with Section 6 of The Newfoundland Board of Liquor Control (Building) Act, 1965. Section 6 of the Act states that, "While Her Majesty beneficially owns the issued shares of the Crown Company, they may be held either in the name of Her Majesty or in the name of any of the Ministers of Her Majesty or by both such methods." The audit disclosed that as at 31 March 1982 the shares were held by three senior government department officials. I referred this matter to the Chairman of the Corporation in a letter dated 9 April 1983. He has informed me, on 16 August 1983, that it wll be referred to Cabinet in order to effect the necessary changes.

ACKNOWLEDGEMENTS

I wish to express, on behalf of myself and all staff of the Department of the Auditor General, my sincere thanks to officials of Government Departments, Crown Corporations, Municipalities and other entities, which I audited, for their understanding, co-operation and assistance during the course of the audits.

Also, I wish to thank the staff of the Department of the Auditor General for their support during the past year.

30 November 1983.

J.F. McGRATH, C.A.,
Auditor General.

APPENDICES

I Other Financial Information

- Summary of revenue, expenditure and related revenue by department
- Receipts and payments after the close of the financial year
- Comparison of out-turn for the year with estimates approved by the Legislature
- Cash requirements, 1982-83
- Comparison of actual and estimated revenue, expenditure and related revenue
- Appropriations by the Legislature
- Unexpended balances of appropriations

II Crown Corporation and Other Audits

- Crown Corporations, Boards, Authorities and Sundry Funds
- School Tax Authorities
- Municipalities
- City

Appendix I

OTHER FINANCIAL INFORMATION

Summary of revenue, expenditure and related revenue by department

The summary for the year ended 31 March 1983, as prepared by the Department of Finance, and included in the Public Accounts as Statement No. 4, shows an out-turn for the year as follows:

	(thousands of dollars)
Total expenditure (net)	1,681,732
Total current account revenue	1,490,719
Excess of expenditure (net) over revenue for the year	191,013

The excess of expenditure over revenue for the year comprises net expenditure of $153,720,000 on capital account, and the deficit of $37,293,000 on current account.

A recapitulation of the totals shown in the summary of revenue, expenditure and related revenue by department is as follows:

Current Account

		(thousands of dollars)	
Revenue			1,490,719
Expenditure (net):			
Consolidated fund services (gross)	282,777		
Less: Related revenue	23,133	259,644	
Supply services (gross)	1,406,562*		
Less: Related revenue	138,194	1,268,368	1,528,012
Deficit on current account			(37,293)

Capital Account

	(thousands of dollars)	
Expenditure (net):		
Consolidated fund services		2,310
Supply services (gross)	215,381*	
Less: Related revenue	63,971	151,410
Net expenditure on capital account		153,720
Excess of net expenditure over revenue for the year		191,013

*Includes some statutory payments.

Receipts and payments after the close of the financial year

The amounts for related revenue on current and capital accounts include $11,125,000, representing amounts received from the Government of Canada during April 1983 and relating to the financial year 1982-83. Such inclusion is permitted by Section 16 of The Financial Administration Act, 1973.

The amounts of current and capital account expenditure include $49,597,000, representing payments made subsequent to 31 March 1983 relating to the financial year 1982-83. Such inclusion is permitted by Section 24 of The Financial Administration Act, 1973.

Comparison of out-turn for the year with estimates approved by the Legislature

The following summary compares actual amounts for the financial year 1982-83 with amounts included in Statement 1 (Summary of Borrowing Requirements and Sources of Funds) of the Estimates approved by the Legislature.

	Estimates	Actual	Increase (Decrease)
		(thousands of dollars)	
BUDGETARY REQUIREMENTS:			
Current Account:			
Gross Expenditure	1,718,730	1,689,339	(29,391)
Related Revenue	182,676	161,327	(21,349)
Net Expenditure	1,536,054	1,528,012	(8,042)
Revenue	1,541,460	1,490,719	(50,741)
Surplus	5,406	(37,293)	(42,699)
Capital Account:			
Gross Expenditure	253,670	217,691	(35,979)
Related Revenue	80,016	63,971	(16,045)
Net Expenditure	173,654	153,720	(19,934)
Total Budgetary Requirements	168,248	191,013	22,765
DEBT RETIREMENT:			
Redemptions	135,384	123,145	(12,239)
Sinking Funds	32,814	32,954	140
Total Debt Retirement	168,198	156,099	(12,099)
Total Budgetary Requirements and Debt Retirement	336,446	347,112	10,666

Cash requirements, 1982-83

The Estimates projected total cash requirements from borrowings for 1982-83 to be $336,446,000. The estimates and the actual borrowings are compared below:

	Estimates	Actual	Increase (Decrease)
		(thousands of dollars)	
General Borrowings	281,446	266,781	(14,665)
Canada Pension Plan	55,000	52,104	(2,896)
Government of Canada and other sources	–	20	20
	336,446	318,905	(17,541)

The funds provided from borrowings, $318,905,000, were less than the total cash requirements for actual net expenditures (payments) of $347,112,000 (comprising budgetary payments, $191,013,000 and debt retirement and sinking fund payments of $156,099,000). The difference of $28,207,000 was met mainly from realization of short term investments.

Comparison of actual and estimated revenue, expenditure and related revenue

The summary below shows differences, in total, between actual and estimated amounts for the year and the number of departments and sources in which they occurred:

	Actual more than estimated		Actual less than estimated	
	No. of Sources	Amount	No. of Sources	Amount
	(thousands of dollars)		(thousands of dollars)	
Current account revenue	–	–	3	50,741
	No. of Depts.		No. of Depts.	
Expenditure:				
Current Account	4	10,040	15	39,432
Capital Account	2	1,441	13	37,419
Related Revenue:				
Current Account	3	2,116	16	23,466
Capital Account	3	3,178	10	19,222

Table 1 shows differences by source, and Tables 2 to 5 show differences by department.

TABLE 1

Current Account Revenue

(thousands of dollars)

Source	Estimates	Actual	(Increase) (Decrease)
Government of Canada	724,750	700,296	(24,454)
Provincial Tax Sources	717,420	696,316	(21,104)
Other Provincial Sources	99,290	94,107	(5,183)
	1,541,460	1,490,719	(50,741)

Note

1. Actual revenue from Provincial Tax Sources is net of refunds of taxes totalling $2,858,407.

TABLE 2

Current Account Expenditure

(thousands of dollars)

Head	Department	Estimates	Actual	Increase (Decrease)
I	Consolidated Fund Services	283,834	282,777	(1,057)
	Supply Services:			
II	Legislative	8,292	7,642	(650)
III	Executive Council	8,205	6,843	(1,362)
IV	Finance	24,244	25,182	938
V	Public Works and Services	20,718	20,365	(353)
VI	Development	19,392	17,085	(2,307)
VII	Mines and Energy	52,936	47,087	(5,849)
VIII	Fisheries	14,002	11,559	(2,443)
IX	Forest Resources and Lands	24,682	21,690	(2,992)
X	Rural, Agricultural and Northern Development	26,478	23,298	(3,180)
XI	Transportation	74,910	68,216	(6,694)
XII	Environment	3,238	2,644	(594)
XIII	Education	440,008	430,971	(9,037)
XIV	Social Services	166,077	169,593	3,516
XV	Health	395,290	398,889	3,599
XVI	Labour and Manpower	9,011	8,935	(76)
XVII	Municipal Affairs	59,039	57,314	(1,725)
XVIII	Culture, Recreation and Youth	23,996	22,883	(1,113)
XIX	Justice	64,379	66,366	1,987
		1,434,897	1,406,562	(28,335)
		1,718,731	1,689,339	(29,392)

TABLE 3

Current Account Related Revenue

(thousands of dollars)

Head	Department	Estimates	Actual	Increase (Decrease)
I	Consolidated Fund Services	33,244	23,133	(10,111)
	Supply Services:			
II	Legislative	223	173	(50)
III	Executive Council	325	272	(53)
IV	Finance	2,880	597	(2,283)
V	Public Works and Services	1,213	1,044	(169)
VI	Development	4,472	6,018	1,546
VII	Mines and Energy	3,951	1,902	(2,049)
VIII	Fisheries	2,868	2,409	(459)
IX	Forest Resources and Lands	10,206	8,796	(1,410)
X	Rural, Agricultural and Northern Development	13,188	10,455	(2,733)
XI	Transporation	4,357	3,695	(662)
XII	Environment	421	230	(191)
XIII	Education	22,490	21,857	(633)
XIV	Social Services	64,857	63,821	(1,036)
XV	Health	8,017	8,422	405
XVI	Labour and Manpower	4,592	3,764	(828)
XVII	Municipal Affairs	1,977	1,546	(431)
XVIII	Culture, Recreation and Youth	1,442	1,607	165
XIX	Justice	2,154	1,786	(368)
		149,433	138,194	(11,239)
		182,677	161,327	(21,350)

TABLE 4

Capital Account Expenditure

(thousands of dollars)

Head	Departmnet	Estimates	Actual	Increase (Decrease)
I	Consolidated Fund Services	870	2,310	1,440
	Supply Services:			
IV	Finance	13,993	13,584	(409)
V	Public Works and Services	7,993	6,792	(1,201)
VI	Development	15,502	9,248	(6,254)
VII	Mines and Energy	197	198	1
VIII	Fisheries	7,695	5,878	(1,817)
IX	Forest Resources and Lands	5,626	3,008	(2,618)
X	Rural, Agricultural and Northern Development	6,385	4,853	(1,532)
XI	Transportation	83,617	76,828	(6,789)
XIII	Education	61,681	56,273	(5,408)
XVI	Social Services	1,038	354	(684)
XV	Health	20,937	19,056	(1,881)
XVII	Municipal Affairs	18,916	12,696	(6,220)
XVIII	Culture, Recreation and Youth	6,662	4,390	(2,272)
XIX	Justice	2,557	2,223	(334)
		252,799	215,381	(37,418)
		253,669	217,691	(35,978)

TABLE 5

Capital Account Related Revenue

(thousands of dollars)

Head	Department	Estimates	Actual	Increase (Decrease)
	Supply Services:			
IV	Finance	10,376	13,367	2,991
V	Public Works and Services	92	258	166
VI	Development	8,665	3,331	(5,334)
VII	Mines and Energy	177	198	21
VIII	Fisheries	1,165	991	(174)
IX	Forest Resources and Lands	4,905	2,528	(2,377)
X	Rural, Agricultural and Northern Development	5,369	3,489	(1,880)
XI	Transportation	39,458	33,605	(5,853)
XIII	Education	390	315	(75)
XIV	Social Services	59	18	(41)
XV	Health	1,545	738	(807)
XVII	Municipal Affairs	4,731	3,163	(1,568)
XVIII	Culture, Recreation and Youth	3,083	1,970	(1,113)
		80,015	63,971	(16,044)

Appropriations by the Legislature

Appropriations provided by the Legislature for the financial year 1982-83, including supplementary supply, totalled $1,700,061,000, as follows:

	(thousands of dollars)
The Interim Supply Act, 1982, enacted 14 May 1982	674,902
The Supply Act, 1982, enacted 2 July, 1982	1,007,595
The Supplementary Supply Act, 1983, passed by the Legislature on 28 November 1983 (Royal Assent pending)	17,564
Total appropriations	1,700,061

Subsequent to enactment of The Supply Act, 1982, spending authority for amounts totalling $17,564,200 was provided by special warrants issued by the Lieutenant-Governor under the provisions of Section 28 of The Financial Administration Act, 1973. In all, fourteen special warrants were issued up to March 1983: thirteen under Section 28(2), and one under Section 28(3) of the Act. The Supplementary Supply Act, 1983 sanctioned the amounts provided by the special warrants.

Unexpended balances of appropriations

Of the $1,700,061,300 appropriations available in respect of expenditure for the year ended 31 March 1983, $81,789,401 remained unexpended.

In compliance with Section 24 of The Financial Administration Act, 1973, balances comprising this amount lapsed and were written off.

The lapsed balances are tabulated as follows by department.

Head	Department	Current Account	Capital Account	Total
		(thousands of dollars)		
I	Consolidated Fund Services	14	–	14
II	Legislative	566	–	566
III	Executive Council	1,386	–	1,386
IV	Finance	517	415	932
V	Public Works and Services	(1,079)	6,600	5,521
VI	Development	3,010	6,254	9,264
VII	Mines and Energy	6,220	(1)	6,219
VIII	Fisheries	2,443	1,817	4,260
IX	Forest Resources and Lands	2,733	2,618	5,351
X	Rural, Agricultural and Northern Development	3,357	1,532	4,889
XI	Transportation	6,454	6,642	13,096
XII	Environment	568	–	568
XIII	Education	9,506	2,493	11,999
XIV	Social Services	2,052	1	2,053
XV	Health	882	697	1,579
XVI	Labour and Manpower	778	–	778
XVII	Municipal Affairs	2,386	6,242	8,628
XVIII	Culture, Recreation and Youth	1,277	1,933	3,210
XIX	Justice	1,446	30	1,476
		44,516	37,273	81,789

Appendix II

CROWN CORPORATION AND OTHER AUDITS

Crown Corporations, Boards, Authorities and Sundry Funds:

Alcohol and Drug Dependency Commission

Atlantic Provinces Special Education Authority Administration*

Atlantic Provinces Special Education Authority Atlantic Provinces Resource Centre for the Hearing Handicapped*

Bay St. George Community College

Bell Island Hospital Building Corporation Limited

B.L.C. Building Corporation Limited

Canada Games Park Commission

C.A. Pippy Park Commission

Centre for Cold Ocean Resources Engineering

College of Fisheries, Navigation, Marine Engineering and Electronics

College of Trades and Technology

Consolidated Sinking Fund

Corner Brook Hospital Building Corporation Limited

Farm Development Loan Board

Fisheries Loan Board of Newfoundland

Gander Development Corporation

Gander Hospital Corporation Limited

Grace Hospital Extension Corporation Limited

Grand Falls Hospital Corporation Limited

Harmon Corporation

Hotel Buildings Limited

Livestock Owners Compensation Board

Memorial University of Newfoundland

Memorial University of Newfoundland Building Corporation Limited

Mooring Cove Building Company Limited

Motor Vehicle Accident Security Account

Newfoundland and Labrador Arts Council

Newfoundland and Labrador Computer Services Limited

Newfoundland and Labrador Housing Corporation

Newfoundland Crop Insurance Agency

Newfoundland Farm Products Corporation

Newfoundland Government Building Corporation Limited

Newfoundland Industrial Development Corporation

Newfoundland Legal Aid Commission

Newfouundland Liquor Corporation

Newfoundland Liquor Licensing Board

Newfoundland Medical Care Commission

Newfoundland Municipal Financing Corporation

Newfoundland Municipal Financing Corporation Sinking Funds

Northern Hospitals Building Corporation Limited

Nurses Training School Building Corporation Limited

Pepperrell Hospital Reconstruction Corporation Limited

Power Distribution Distirct of Newfoundland and Labrador

Province of Newfoundland Pooled Pension Fund

Provincial Advisory Council on the Status of Women – Newfoundland and Labrador

Public Accounts Licensing Board

Public Libraries Board

Registrar of the Supreme Court of Newfoundland

St. John's Infirmary Building Corporation Limited

St. John's, Memorial Stadium Commission

St. John's Residential Tenancies Board

School Insurance Committee

Technical College Building Cororation Limited

Vocational Schools (Western) Building Corporation Limited

*Joint audit with the Auditors General of New Brunswick, Nova Scotia and Prince Edward Island.

School Tax Authorities:

Bay D'Espoir

Bay St. George

Burin Peninsula

Central Labrador

Channel-Port aux Basques

Conception Bay South

Corner Brook

Deer Lake

Exploits Valley

Ferryland

Green Bay

Labrador West

Notre Dame

Placentia-St. Mary's

Port au Port

Regional District No. 1

St. Barbe South

St. John's

Trinity-Conception

Vinland

Municipalities:

- Admiral's Beach
- Arnold's Cove
- Avondale
- Badger
- Bay Roberts
- Benoit's Cove
- Bishops Cove
- Bonavista
- Branch
- Brigus
- Carbonear
- Chance Cove
- Chapel Arm
- Clarke's Beach
- Colliers
- Come by Chance
- Conception Bay South
- Conception Harbour
- Cox's Cove
- Cupids
- Dark Cove
- Deer Lake
- Dunville
- Eastport
- Elliston
- Englee
- Fermeuse
- Ferryland
- Flatrock
- Fox Cove – Mortier
- Fox Harbour
- Freshwater
- Gaskiers
- Gillams
- Glenwood
- Goulds
- Hampden
- Harbour Grace
- Holyrood
- Howley
- Irishtown
- Jerseyside
- King's Point
- Lamaline
- Lark Harbour
- Leading Tickles West
- Little Burnt Bay
- Little Catalina
- Long Harbour
- Lord's Cove
- Lushes Bight-Beaumont-Beaumont North
- Main Brook

McIver's
Meadows
Melrose
Mount Carmel
Mount Moriah
Musgravetown
Norman's Cove
Old Perlican
Paradise
Pasadena
Peterview
Petty Harbour
Placentia
Portugal Cove
Pouch Cove
Renews - Cappahayden
Riverhead
Roddickton
St. Brendan's
St. Bride's
St. Joseph's
St. Mary's
St. Phillip's
St. Thomas
Salvage
Sandy Cove
South Brook
South River
Sunnyside
Tilton
Torbay
Trepassey
Upper Island Cove
Wabana
Wabush
Wedgewood Park
Westport
Whitbourne

City:

City of St. John's